Stock Code: 4129

United Orthopedic Corporation

2016 Annual Report

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Website for Annual report queries: http://mops.twse.com.tw

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   Acting Spokesperson: Peng,Yu-Hsin
   Title: Deputy General Manager
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2. Addresses and telephone numbers of the company headquarters and subsidiaries:

Company HQ	:	No. 57, Yuanqu 2nd Rd., Hsinchu Science Park, Hsinchu City, Taiwan (R.O.C.)	TEL:	03-5773351
Taipei Contact Office	:	12F., No. 80, Sec. 1, Chenggong Rd., Yonghe Dist., New Taipei City, Taiwan (R.O.C.)	TEL:	02-29294567
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3. Stock Transfer Handling Agency:
   Department of Stock Transfer, Jih Sun Securities Co.,Ltd.
   Address: 7F., No.85, Sec. 2, Nanjing E. Rd., Zhongzheng Dist., Taipei, Taiwan (R.O.C.)
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4. Name of the CPA Attesting the Financial Statements during the past year:
   Accountant: Chang, Chih-Ming, CPA, Huang, Chien-Che, CPA
   Name of accounting firm: PwC Taiwan
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5. Overseas Trading centers for Listed Negotiable Securities and the method of Inquiry: Overseas Securities Information
   N/A

6. Company's Website: http://www.uoc.com.tw

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I. Letter to Shareholders

Dear shareholders,
On behalf of United Orthopedic Corporation, I would like welcome all of you to the 2017 Annual General Meeting of the Company. Thank you very much for your participation.

1. 2016 Operating results

(1) Results of the implementation of the Operating plan
The company's 2016 net operating revenue is NT$1,352,145 thousand, which is an increase of 19.72% over the 2015 net operating revenue of NT$1,129,436 thousand. The 2016 net consolidated operating revenue is NT$1,383,340 thousand, which is NT$9,233 thousand less than that of the 2015 net consolidated operating revenue of NT$1,392,573 thousand. The 2016 profit after tax is NT$140,849 thousand, which is an increase of NT$7,042 thousand over the 2015 profit after tax of NT$133,807 thousand.

(2) Budget execution
The company's undisclosed budget amount and overall operating conditions are in accordance with the estimates as per the current laws.

(3) Analysis of the consolidated income, expenses and profitability

i. Consolidated income and expenses

Unit: NT$1,000

Item	2016	2015
Current period net profit	140,849	133,807
Cash inflow from operations	182,702	252,745
Cash outflow from investment activities	(725,292)	(199,230)
Cash inflow from financing activities	299,534	434,113
Increase (decrease) in cash and cash equivalents	(253,511)	492,402
Opening balance of cash and cash equivalents	731,431	288,961
Closing balance of cash and cash equivalents	477,926	731,431

ii. Analysis of Consolidated Profit
The 2016 annual revenue is NT$1,383,340 thousand, which has decreased from NT$1,392,753 thousand of last year. The 2016 profit after tax is NT$140,849 thousand, which is a NT$7,042 thousand increase over the 2015 profit after tax of NT$133,807 thousand. The EPS is NT$2.06, which is lower than last year's NT$2.30, which was mainly caused by capital increase at the fourth quarter of 2015.

(4) R&D Status
The group's 2016 R&D expense is NT$161,231 thousand, which is an increase of NT$9,581 thousand from 2015. The annual growth rate is 6.3%. It constitutes 11.7% of the annual revenue, or about one eighth of the revenue.

2. Overview of 2017 operations

(1) Operational objectives

A. Among the private brands, United Orthopedic Corporation has an impressive product line in place. The next objective is to build a strong sales team with a larger coverage. United Orthopedic Corporation has invested in Europe and founded the Switzerland holdings in May, 2016. United Orthopedic Corporation has contributed 75% of its funds and 25% has been contributed by industry professionals in Switzerland. Established under the holding company, the Switzerland and France sales companies carry out business through direct selling. So far, the sales have been satisfactory. This deployment has laid the foundation for United Orthopedic Corporation's operations in Europe. The Europe operations will provide better products and services in the region by providing localized models in the future. United Orthopedic Corporation has also established joint sales company in Japan in August 2016 in which the United Orthopedic Corporation has 51% of shares while industry professionals in Japan constitute the rest of the shareholders. The distribution company and the spine product company of Taiwan have also begun the registration of products and sales will commence in 2017. The companies in Europe and Japan are both formed jointly with professionals with abundant local experience. They participate in investments and are responsible for operations. This kind of symbiotic relationship is likely to produce a win-win situation.

B. Of the 46 billion USD worth of global orthopedic products, artificial joints constitute 16.5 billion USD, and spine products 830 million USD. The targeted customers are mainly orthopedic surgeons and spine surgeons, and they overlap in many cases. Therefore, the United Orthopedic Corporation will develop spine products after artificial joints show satisfactory results almost of the customers, distributors, and channels are the same. Even though United Orthopedic Corporation has a few spine products that sell in the China market, the product line is incomplete. The fastest way to enter into a market is through acquisition; therefore, the Company launched the evaluation on the spine product companies of excellent operational performance in 2016, hoping that OUC is able to break into the spine product market in 2017.

(2) Estimated sales volume and relevant information

Unit: pcs

Main products	2017 sales target
	Quantity (pcs)
Artificial joints	244,508
OEM products	1,740

Note: Income from other products is not shown as the statistics of the quantity of these products is not available.

The 2017 sales target is set based on the future development of products in the company, orders for the products, and supply and demand in the market, and based on capacity expansion of the company.

(3) Significant sales and production policies

The phase three of new construction of Kaohsiung plant, which has begun in March 2016, it is progressing well. The construction is expected to be completed in the second quarter of 2017. The production may begin in the third quarter. The maximum production capacity may expand to 3.5 times higher than the current production capacity.

3. Developmental strategies for the Company in the Future

The revenue of the United Orthopedic Corporation is still small in the global orthopedic market. However, the Corporation has set up sales offices in 38 countries and regions with hard work. The company will make steady progress based on this foundation laid to provide better products and services to build brand reputation and image.

4. Influences from external competitive environment, legal environment, and overall economy

Apart from the FDA of U.S, CE Mark of European Union, CFDA of China, and TFDA of Taiwan, the regulations are becoming increasingly rigorous in the recent years increasing the time required to obtain certifications, as also the cost of testing. Fortunately, the company has met all the requirements with over 20 years of legal and regulatory experience.

II. Company Profile

1. Date of Founding

The company was founded on March 5, 1993.

2. Company History

1993	● The company was founded with a registered capital of NT$27,500,000.
1994	● The registered capital is NT$112,250,000. ● "United" Unhip Total Hip System has received authorization from the Department of Health. License No.: Department of Health Medical Machine Production No.000587 for marketing the product. ● First clinical use of Unhip Total Hip System.
1995	● "The Sintering Technology of Porous Coating on Cocoa Alloy" was awarded the Science-Based Industrial Park subsidy of NT$1,900,000 for innovative technology. ● Obtained international quality assurance certification ISO 9001.
1996	● "United Pinand Wire" has received authorization from the Department of Health for marketing of the product. License No.: Department of Health Medical Machine Production No.000630.
1997	● The registered capital is NT$116,125,000. ● "United Pin" has received authorization from the Department of Health for marketing it. License No.: Department of Health Medical Machine Production No.000659. ● “United” UKNEE Total Knee System products have received approval` from the Department of Health for its marketing. License No.: Department of Health Medical Machine Production No.000663. ● Science-Based Industrial Park has awarded the company the innovative technology subsidy of NT$2,190,000 for "The design, develop, and production of Tumor UKNEE Total Knee System and surgery tool". ● The Department of Health has approved the marketing of "United Bone Screw" under License No.: Department of Health Medical Machine Production No.000691.
1998	● The Science-Based Industrial Park has awarded in 1997 the innovative product award for “United UKNEE Total Knee System". ● Increased the capital by NT$70,000,000, and the registered capital after the increase is NT$186,125,000. ● Permitted to launch supplemental public issuance. ● Science-Based Industrial Park in 1998 has awarded the “Tumor UKNEE Total Knee System" for innovative product. ● The Ministry of Economic Affairs Taiwan has awarded the Excellence Certification for UKNEE Total Knee System. ● The Department of Health has approved the marketing of "United" Moore Hip Prosthesis from under License No.: Department of Health Medical Machine Production No.000716. ● The Department of Health has authorized the marketing of “United” Hip System under License No.: Department of Health Medical Machine Production No.000717.
1999	● Increased the capital by NT$40,000,000, which after the increase is NT$226,125,000. ● The Ministry of Economic Affairs has awarded the "Small and Medium Sized Enterprises Innovative Research Award" for United UKNEE Total Knee System. ● Obtained the international quality assurance certification ISO 9001/EN46001. ● Obtained the GMP's Well-manufactured medical equipment specification certification. ● Science-Based Industrial Park has awarded the innovative technology subsidy award of NT$2,500,000 for "The design, develop, and production of bipolar hip system and surgery tool" .of. ● United UKNEE Total Knee System has been awarded "National Quality Gold Award". ● Science-Based Industrial Park in 1999 has awarded innovative product award for the “Stabilized UKNEE Total Knee System".
2000	● United UKNEE Total Knee System has been certified by CE of European Union. ● "United" U2 Hip Stem has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No.000884. ● Unhip Total Hip System has been certified by FDA of US.
2001	● The FDA of US has approved the certification of "United" U2 Hip Stem (HA/Porous). ● The Department of Health has approved the marketing of “United” UNIFY Femur Plate System under License No.: Department of Health Medical Machine Production No.000897. ● The CE of European Union has certified the "United" U2 Hip Stem (HA/Porous). .

	● The CE of European Union has certified the "United" U2 Hip Stem (acrylic cement).
2002	● "United" U2 Hip Stem (HA coating) has been awarded the Bronze medal under the Medical Equipment Category of Drug Research and Development Science and Technology Award. ● The Ministry of Economic Affairs Taiwan has awarded the Excellence Certification to "UNITED" No. 2 Unhip Total Hip System. ● CE of European Union has certified "United" 22 mm/28 mm ceramic femoral head. CE of European Union has certified the "United" U2 ace tabular cap and fillings. ● Science-Based Industrial Park has awarded the innovative product award in 2002 for "U2 Hip Stem".
2003	● Passed the international quality assurance certification ISO 13485: 1996 edition. ● The Department of Health has approved the marketing of "United" UKNEE total knee system (mobile), under License No.: Department of Health Medical Machine Production No.001038. ● The Department of Health has approved the marketing of "United" Unify Femur Plate System under License No.: Department of Health Medical Machine Production No.001064. ● The United States Patent and Trademark Office has approved the patent rights (US patent no. 6663636 B1) of "A structural improved femur rasp fastener".
2004	● The Department of Health has approved the marketing of "United" U2 acetabula component under License No.: Department of Health Medical Machine Production No.001071. ● The Department of Health has approved the marketing of "United" Ustar system under License No.: Department of Health Medical Machine Production No.001119. ● The Department of Health has approved the marketing of "United" Ustar system - femoral articulation under License No.: Department of Health Medical Machine Production No.001119. ● Increased the capital by NT$28,500,000 to NT$254,625,000. ● The company was listed on Sept. 29. ● Founded the United Medical (B.V.I.) Corporation.
2005	● Made indirect investment in Medical Instrument Ltd. in China. ● Made indirect investment in Lianmao Medical Treatment Utensils Technology (Shanghai) Limited Company in China. ● The Department of Health has approved the marketing of "United" U2 Total Knee System under License No.: Department of Health Medical Machine Production No.001396. ● The Department of Health has approved the marketing of "United" Ceramic Femoral Head under License No.: Department of Health Medical Machine Production No.001397. ● The Ministry of Economic Affairs has awarded "United" U2 CUP (HA coating) & CUP LINER under "Small and Medium Sized Enterprises Innovative Research Award" category. Increased the capital increase by NT$28,500,000 to NT$254,625,000.
2006	● The Department of Health has approved the marketing of "United" external fixator under License No.: Department of Health Medical Machine Production No.002092. ● Increased the capital by NT$85,000,000to NT$339,625,000.
2007	● The Department of Health has approved the marketing of “United” slim fit anterior cervical plate system under License No.: Department of Health Medical Machine Production No.002134. ● The Department of Health has approved the marketing of “United” Century spinal system under License No.: Department of Health Medical Machine Production No.002254. ● The State Intellectual Property Office of the People's Republic of China has awarded the utility model title patent rights of <u>Soft tissue fixation structure of proximal tibial component</u> under License No.: ZL 200620007486.2. ● The State Intellectual Property Office of the People's Republic of China has awarded the utility model title patent rights of <u>the surgery tools for operating UKNEE Total Knee System</u> under License No.: ZL 200620139229.4. ● Increased the capital by NT$46,000,000 to NT$385,625,000. ● U2 Total Knee System was awarded "National Biotechnology Medical Quality Award". ● Established the United Orthopedic (U.S.A.) Corporation. ● Established the U.S. branch offices of the United Orthopedic Corporation USA.
2008	● The Department of Health has approved the marketing of "United" U-MOTION acetabular component under License No.: Department of Health Medical Machine Production No.002396. ● “UNITED” Round Mesh System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No.002498. ● The Department of Health has approved the marketing of "United" express lumbar cage system under License No.: Department of Health Medical Machine Production No.002512. ● The Department of Health has approved the marketing of "United" booster anterior cervical plate system under License No.: Department of Health Medical Machine Production No.002512. ● The Department of Health has approved the marketing of "United" express peek cage system under License No.: Department of Health Medical Machine Production No.002559.

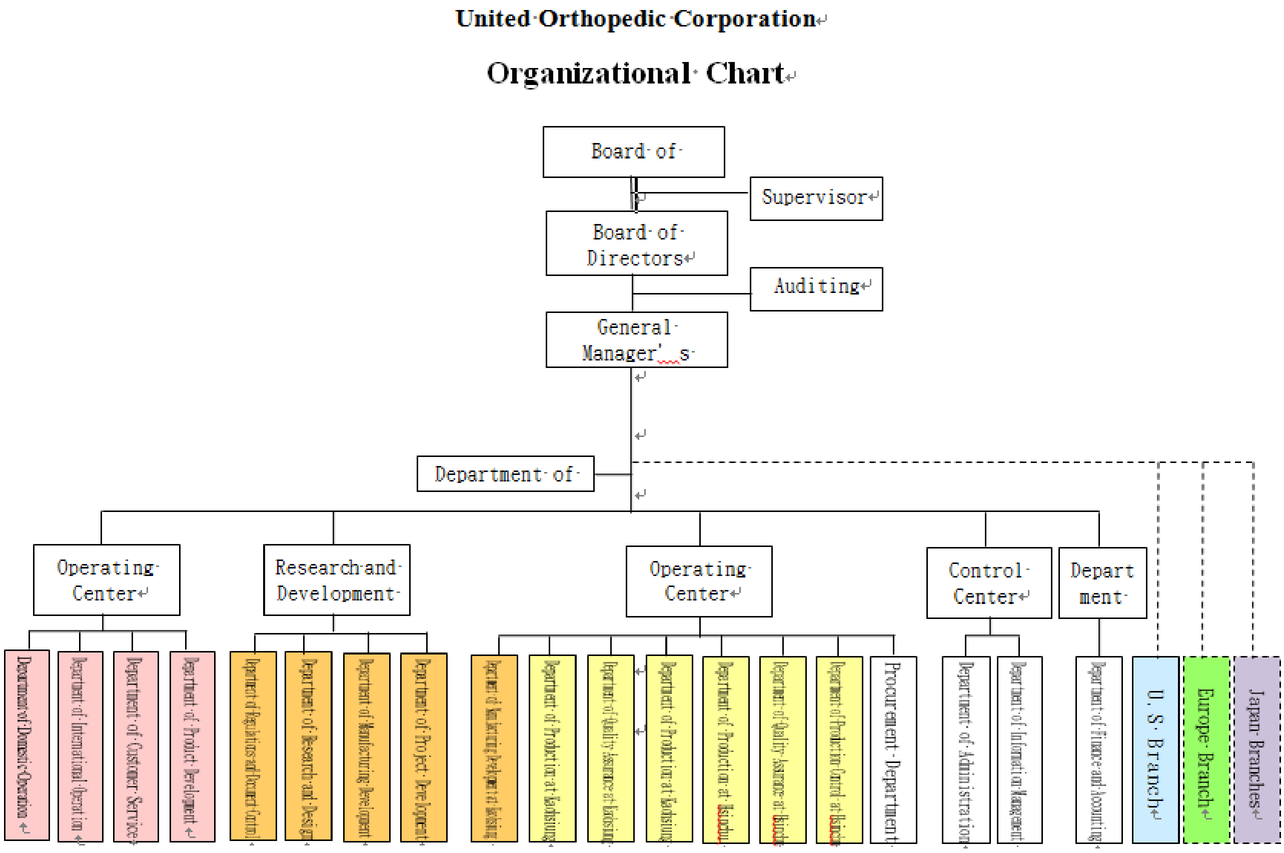
	● The Republic of China has approved the utility patent of <u>Expansion mechanism for minimally invasive lumbar cage surgery (Invention)</u> under License No.: New Utility I298248. ● Increased the capital by NT$38,000,000 to NT$423,625,000.
2009	● The Department of Health has approved the marketing of "United" U2 Total Knee System under License No.: Department of Health Medical Machine Production No.002662. ● The Department of Health has approved the marketing of "United" Unify Femur Plate System under License No.: Department of Health Medical Machine Production No.002676. ● The Department of Health has approved the marketing of "United" Ustar system—shoulder joint under License No.: Department of Health Medical Machine Production No. 002706. ● Increased the capital by NT$40,000,000 to NT$463,625,000. ● The Ministry of Economic Affairs has awarded Industrial Technology Advancement Award—Excellent Enterprise Innovation Award. ● Terminated the U.S. branches of the United Orthopedic Corporation USA.
2010	● The State Intellectual Property Office of the People's Republic of China has approved the utility model title patent rights of <u>A structural improved Orthopedic component</u> under License No.: ZL 200920005650.X. ● The United States Patent and Trademark Office has approved the patent rights of <u>Thighbone shaft under Patent</u> No. US 7753961 B2. ● The United States Patent and Trademark Office approved the patent rights of <u>Expansion mechanism for minimally invasive lumbar operation</u> under Patent No. US 7811230 B2.
2011	● The Department of Health has approved the marketing of “UNITED” Hip System-U2 Bipolar Implant under License No.: Department of Health Medical Machine Production No.003187. ● The Department of Health has approved the marketing of “United” ceramic femoral head under License No.: Department of Health Medical Machine Production No.003331. ● The Department of Health has approved the marketing of “United” hip system under License No.: Department of Health Medical Machine Production No.003335. ● Established the Kaohsiung plant at Tainan Science-Based Industrial Park Luchu Base. ● The United States Patent and Trademark Office has approved the patent rights of <u>Support mechanism for operation auxiliary tools</u> under Patent No. US 8083196 B2.
2012	● The Department of Health has approved the marketing of “United” compression intramedullary pinning under License No.: Department of Health Medical Machine Production No.003619. ● The Department of Health has approved the marketing of "United" Ustar system—hip joint under License No.: Department of Health Medical Machine Production No.003713. ● Founded the U.S. Branch of UOC USA Inc. ● The United States Patent and Trademark Office has approved the patent rights of <u>Artificial joint fixation mechanism</u> under Patent No. US 8172906 B2. ● Awarded the Hsinchu Science Park "Innovative Product Award" and "International Exchange and Corporation Promotion Award". ● The Institute for Biotechnology and Medicine Industry has awarded the "Symbol of national Quality" award for U2 Total Knee System. ● U2 Total Knee System has bagged the "Institute for Biotechnology and Medicine Industry Silver Award".
2013	● The Department of Health has approved the marketing of “United” CENTURY spinal system II under License No.: Department of Health Medical Machine Production No.003969. ● The Department of Health has approved the marketing of "United" U-MOTION acetabular component II under License No.: Department of Health Medical Machine Production No.003977. ● The Department of Health has approved the marketing of “United” Hip System II under License No.: Department of Health Medical Machine Production No.004220. ● The Department of Health has approved the marketing of “United” BIOLOX OPTION Ceramic Femoral Head under License No.: Department of Health Medical Machine Production No.004236. ● Capital increased by NT$70,000,000 to NT$533,625,000. ● Issued NT$200 million worth of convertible bonds. ● U-Motion II was awarded the "Taiwan Excellence Certification". ● U-Motion artificial hip joint system was awarded the "10th National Innovation Award".
2014	● The Department of Health has approved the marketing of "United" U2 Total Knee System—Model under License No.: Department of Health Medical Machine Production No.004248. ● The Department of Health has approved the marketing of “United” FENCE anterior staple fixation system under License No.: Department of Health Medical Machine Production No.004512.

	● The Department of Health has approved the marketing of "United" E-XPE cemented cup under License No.: Department of Health Medical Machine Production No.004678. ● The Department of Health has approved the marketing of “United” Slim fit anterior cervical plate system II under License No.: Department of Health Medical Machine Production No.004697. ● The Department of Health has approved the marketing of "United" E-XPE cemented hip stem under License No.: Department of Health Medical Machine Production No.004825. ● The State Intellectual Property Office of the People's Republic of China has awarded the utility model title patent rights for Plate components and their auxiliary positioning pieces under License No.: ZL 2013 2 0483547.2. ● The State Intellectual Property Office of the People's Republic of China has awarded the utility model title patent rights for Stacked tibial insert under License No.: ZL 2014 2 0085015.8. ● Republic of China has awarded utility patent of stacked tibial insert under License No.: New Utility M479734. ● The United States Patent and Trademark Office has awarded the patent rights of connecting device of joint prosthesis under Patent No. US 8721729 B1. ● The Republic of China has awarded the utility patent of femoral resection regulation under License No.: New Utility M495826.
2015	● The Department of Health has approved the marketing of "United" U2 Total Knee System - Full polyethylene tibial components under License No.: Department of Health Medical Machine Production No.005246. ● The State Intellectual Property Office of the People's Republic of China has awarded the utility model title patent rights for Femoral resection regulation under License No.: ZL 2014 2 0579814.0. ● The State Intellectual Property Office of the People's Republic of China has awarded the utility model title patent rights for Acetabular cup inserter under License No.: ZL 2012 1 0353196.3. ● The United States Patent and Trademark Office has awarded the patent rights of Acetabular cup inserter under Patent No. US 8926621 B2. ● The United States Patent and Trademark Office has awarded the patent rights of Structure improvement of an orthopedic implant of an artificial knee joint acetabular cup inserter under Patent No. US 9044327 B2. ● The United States Patent and Trademark Office has awarded the patent rights of Stack-up assembly for tibial insert trial under Patent No. US 9144495 B2. ● Acetabular cup inserter has been awarded patent certification that is issued by Republic of China. License No.: Innovation I508698. ● Capital increased by NT$128,000,000 to NT$712,128,680. ● Signed cooperation agreements with Shinva Medical Instrument Co., Ltd and New China Life Health Co., Ltd of China.
2016	● Disposed of the equities of three affiliated companies—United Medical Instrument Co., Ltd., Sinopharm United Medical Device Co., Ltd, and United Medical Technology (Shanghai) Co., Ltd. ● Invested and jointly founded Shinva United Orthopedic Corporation with Shinva Medical Instrument Co., Ltd and New China Life Health Co., Ltd. ● The Republic of China has approved the utility patent for Joint prosthesis under License No.: New Utility M521999. ● The State Intellectual Property Office of the People's Republic of China has awarded the utility model title patent rights for Femoral resection regulation under License No.: ZL 2016 2 0133047.X. ● Founded the United Orthopedic Corporation (Suisse) SA and United Orthopedic Corporation (France) SAS in Switzerland and France, respectively. ● Founded the United Biotech Japan Co., Ltd. ● Awarded "Golden Quality Medal" of 2016 outstanding biotechnology industry. ● The multifunctional femur measurement and osteotomy tool of U2 UKNEE Total Knee System has been awarded the 13th National Innovation Award.
2017	● Purchased the total shares of A-Spine Asia Co., Ltd.

III. Corporate Governance Report

1. Organization

(1) Organizational Structure



(2) Responsibilities and functions of major departments

Departments	Main Functions
General Manager's Office	Strategic planning, developing and promoting operational guidelines and targets, planning of operating meetings and follow up and overseeing resolutions, auditing of various management decisions.
Auditing Office	Auditing of the business, financial, and operating conditions of the entire Company.
Department of Construction Safety	Develop, coordinate, and review the measures over labor safety and health policies, management, education and training, and operation environment. Generate proposals for safety and health measures, publish inspection results of automatic inspection of safety and health audit, of machinery, equipment, raw materials, materials, hazard prevention measures, and of occupational hazards. Other relevant public safety and safety, and health management matters.
Department of Finance and Accounting	Management and auditing of accounting, taxation and cost calculation of the Group, preparation and control of the final accounts of the Company's operational budget, shareholding and financial planning and execution of the Group.
Control Center	The preparation of the regulations of the company on personnel management, planning and implementation of education and training, maintenance of fixed assets, maintenance of public facilities, purchase of security, fire protection, security business, purchase of public goods and related insurance matters. Planning, development and maintenance management of the information system.
Departments	Main Functions
Operational Center	Responsible for marketing and promotion of business for domestic and external orthopedic products, surgical instruments, and OEM. Moreover, deal with the orders of the customers, contracts, and complaints, review of the customers' credit status, and track accounts. Furthermore, a solid control over delivery schedules, control over purchase and refunds,

	periodical inventory control and check and test machinery tools. Responsible for proposal and tracking of operations and product marketing plan. Plan and participate in domestic and international exhibitions. Analyze, assess, and promote domestic and international market. New product development and oversee its progress. Training for domestic and international distribution business products. Responsible for developing internal product database and for internal educational training. Publish the literature for the new product and assist in writing the text, and designing the new product. Collect the clinical outcomes for the company's products and publish them. Discuss the rationality and discuss with the consulting doctors on the possibility of publication of the results; assist in clinical discussions and solution.
Research and Development Center	Planning, design and development, theoretical research, validation, model validation, model production, CAM programming, engineering and production management, product testing, material quality standards, heat- treatment specifications of new products. Establish the product production process protocol, process quality inspection, mechanical maintenance, and operating standards. Development, manufacture and maintenance of surgical instruments. Responsible for product compliance, product listing, patent and trademark application. Coding, registration, and issuance of documents and control and preserve the documents. Test and verify plan of product development. Testing and verification of the development of the products.
Operation Center	Execution, management, and control of production plans. Technology related to research and development of forging, casting, titanium bead sintering, titanium and HA plasma spraying, development of operational standards and production plans for management control. Production planning, scheduling and maintenance, production control and feedback, material requirements, procurement planning and maintenance. Raw materials and forgings, castings and surface titanium bead sintered products, titanium surface coating, and inventory control of surface titanium and products of HA composite, warehouse control and maintenance. Quality assurance, develop inspection standards of raw materials purchased, first sample, and final manufacturing. Customer complaint processing, SPC application planning, measurement and calibration of equipment, ISO quality management system implementation and maintenance. Businesses, such as purchase of raw materials from international and domestic markets for the plants and export of the OEM products. Maintenance and management of plant's facility, integration of the project construction, maintenance and cleaning of the machinery, and other management matters in relation to the plants.

2. Information on Directors, Supervisors, President, Vice-Presidents, Assistant Vice-Presidents, and heads of various departments and branches

(1) Directors and Supervisors

(i) Directors and Supervisors

April 22, 2017

Title	Nationality or place of registration	Na(me	Gender	Date Elected	Term	Date First Elected	Shares held on Election		Shares currently held		Shares currently held by Spouse and Children		Shares Held in the Name of Other Persons		Significant Experience and Education	Positions currently held in other companies	Any executive officer, director or supervisor who is a spouse or relative at the second degree of kinship		
							Number of Shares	Percentage	Number of Shares	Percentage	Number of Shares	Percentage	Number of Shares	Percentage			Title	Name	Relationship
President and General Manager	Republic of China	Lin, Yan-Shen	Male	2014.06.23	3 years	82.03.05	1,655,000	3.04%	2,150,000	3.00%	468,000	0.65%	0	0	Public Relations, Shih Hsin University Manager of 3M, USA President, Chuan-Yi Investment Inc. Director, Chuan-Yi Investment Inc.	Supervisor, Taiwan Home Care Co., Ltd Person-in-charge , LEMAX COMPANY LIMITED Person-in-charge, United Medical (B.V.I.) Corporation Person-in-charge, UOC America Holding Corporation Person-in-charge,UOC USA INC. Vice-President, Shinva United Orthopedic Corporation President, A-Spine Asia Co., Ltd. Director, United Biotech Japan Co., Ltd. Person-in-charge, UOC Europe Holding SA	Director	Lin, Chun-Sheng	Brother
Director	Republic of China	Lin, Chun-Sheng	Male	2014.06.23	3 years	97.06.13	1,608,629	2.96%	1,758,629	2.45%	0	0	0	0	Industrial Management, Aletheia University Director, Chuan-Yi Investment Inc. Vice-President, United Orthopedic Corporation Vice President, Sinopharm United Medical Device Co., Ltd	Director, United Biotech Japan Co., Ltd. Director, A-SPINE Asia Co., Ltd.	Chairman	Lin, Yan-Shen	Brother
Director	Republic of China	Hau, Hai-Yen	Male	2014.06.23	3 years	86.05.15	604,307	1.11%	661,714	0.92%	0	0	0	0	Doctor of Philosophy in Electrical Engineering, Purdue University Associate Professor of Electrical Engineering, National Taiwan University Deputy General Manager, Financial business group of the Institute for Information Industry President, Integrate Information System Co. Ltd.	Director, Sincere Medical Imaging Co. Ltd. Independent director, Walton Advanced Engineering, Inc. Director, ENE Technology Inc. Independent Director, Precise Technology Group Ltd.	None	None	None

Director	U.K.	Ng Chor Wah Patrick	Male	2014.06.23	3 years	94.06.16	750,756	1.38%	1,180,076	1.64%	0	0	0	0	The Hong Kong Polytechnic University MEDTRONICS OFAMOR DANEK CHINA-Country manager SCHWARTZ GROUP Executive Director STRYKER PACIFIC LTD Vice-president Director, Only care Medical Company Ltd.	Person-in-Charge, United Medical Instrument Co., Ltd Person-in-Charge, United Medical Technology (ShangHai) Co.,Ltd. Director, Onlycare Medical Company Ltd Director, Shinva United Orthopedic Corporation Super Joint Engineering Limited	None	None	None
Director	Republic of China	Chi-Yi Investment Co. Ltd.	of	2014.06.23	3 years	96.06.13	883,911	1.63%	1,029,312	1.43%	0	0	0	0	None	None-	None	None	None
Corporate investors Representative	Republic of China	Lee, Chi-Fung	Female	2014.06.23	3 years	96.06.13	0	0	0	0	0	0	0	0	Education for librarianship, National Taiwan University Project Manager, China Management Consultant Inc.	Chi-Yi Investment Co. Ltd.	None	None	None
Independent Director	Republic of China	Wang, Yueh-Cheng	Male	2014.06.23	3 years	97.06.13	0	0	0	0	0	0	0	0	MBA, National Chengchi University Full-Time, Part-Time Instructor for Business Management, Soochow University General Manager, Primasia Securities Co., Ltd. Director, Deputy General Manager, Vigor International Inc.	None	None	None	None
Independent Director	Republic of China	Lee, Chun-hsien	Male	2014.06.23	3 years	92.06.17	0	0	0	0	0	0	0	0	MBA, The City University of New York Officer, Credit Department of Bank of Taiwan Director of Department of Investment Management and Accounting Tax, Macronix International Co., Ltd General Manager, Director, Biomorphic Microsystems Corporation	Senior Director of Department of Business Development Finance, TSMC	None	None	None
Supervisor	Republic of China	Wong, Chi-Yin	Male	2014.06.23	3 years	103.06.23	955,253	1.76%	758,993	1.06%	0	0	0	0	Medical Studies, National Defense Medical Center Director of Orthopedics Department, Kaohsiung Veterans General Hospital Attending Physician, Taipei Veterans General Hospital	Attending Physician of Orthopedics Department, YUANHOSP	None	None	None

Supervisor	Republic of China	Wang, Ching-Hsiang	Male	2014.06.23	3 years	93.06.17	0	0	0	0	0	0	0	0	Master of Accounting, Soochow University Partner, Solomon & Co., CPAs Convener of Finance and Taxation Commission, Kaohsiung City Association of Small & Medium Enterprises Instructor, Shih Chien University Part-Time Instructor of Accounting, Tunghai University	Person-in-Charge and Partner of Yangtze CPAs & CO. Chairman, Hua De Alliance Independent Director, Full Wang International Development Co., Ltd.	None	None	None
Supervisor	Republic of China	Chen, Li-Ju	Female	2014.06.23	3 years	98.06.19	0	0	0	0	0	0	0	0	Accounting, National Chengchi University GMBA, National Chengchi University Chairman, Ping Nan CATV Co., Ltd. Supervisor, Eastern Broadcasting Co., Ltd. Director, HANROC Project Finance Consultant, Carlyle Asia Investment Advisors Limited General Manager, Administrative Finance, Melchers Trading GMBH (Taiwan Branch)	Person-in-Charge, Li-Ru Chen Accounting Firm	None	None	None

ii. Major Shareholders of Institutional Shareholders:

①Major shareholders of institutional shareholders

April 22, 2017

Names of institutional shareholders	Major shareholders of institutional shareholders
Chi-Yi Investment Co. Ltd.	Lee, Chi-Fung (40%), Chia, Chen-I (60%)

②Major shareholders of institutional shareholders who are representative of institutional shareholders: None.

iii. Professional knowledge and independency possessed by the Directors or Supervisors and the work experience required by and qualified for the following items:

Condition / Name (Note 1)	Does the Director have five or more years of work experience and the following professional qualifications?			Compliance to the independence (note 2)										Currently serving as an independent director of other public companies
	Served in lecturer role or above in public or private college institutions in one of the following departments: business administration, law, finance, accounting, or other disciplines relevant to the company's operations	Currently serving as a judge, prosecutor, lawyer, accountant or other professional or a technical staff certified by national examinations and licensed by the competent authorities	Work experience necessary for Business administer action, legal affairs, finance, accounting, or business sector of the Company	1	2	3	4	5	6	7	8	9	10	
Yan-Shen Lin			✓					✓	✓	✓		✓	✓	None
Lin, Chun-Sheng			✓					✓	✓	✓		✓	✓	None
Hau, Hai-Yen			✓	✓			✓	✓	✓	✓	✓	✓	✓	2
Ng Chor Wah Patrick		✓	✓				✓	✓	✓	✓	✓	✓	✓	None
Chi-Yi Investment Co. Ltd.			✓	✓			✓	✓	✓	✓	✓	✓		None
Lee, Chin-hsien			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Wang, Yueh-Cheng	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
Wong, Chi-Yin		✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	None
Wang, Ching-Hsiang	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	1
Chen, Li-Ju		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	None

Note 1: Please add more rows to accommodate additional entries.

Note 2: Please "✓" the box under each criteria number if the director or supervisor meets the criteria two years prior to resuming the position or during the term of service.

(1) Not employed by the Company or its affiliated companies.

(2) Not a director or supervisor of the Company of any of its affiliates (excluding independent directors set up by the Company, its parent company or subsidiaries in compliance of the local regulations).

(3) Not a shareholder that hold more than 1% of the Company's total shares or rank among top-ten shareholders, this applies for the Director himself/herself, spouse, minor children, or shares held under others' names.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of any of the persons in the preceding three subparagraphs.

(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.

(6) Not a director, supervisor, manager, or a shareholder that holds more than 5% of shares at a company or institution that has financial or business exchanges with the Company.

(7) Not a professional individual or owner, partner, director (member of the governing board), supervisor (member of the supervising board), or managerial officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting, or consultation services to the company or to any affiliated business, or spouse thereof. However, members of Remuneration Committee who executes their responsibility according to Article 7 of Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter are not bound by this limitation.
(8) Not the spouse or being a relative within the second degree of kinship to any other director of the Company.
(9) Not under of any conditions defined in Article 30 of the Company Act.
(10) Not elected as a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

(2) General Manager, Deputy General Manager, assistant manager, and managerial officer of various departments or branches

April 22, 2017

Title (Note 1)	Nationality	Name	Gender	Date Elected	Shares Held		Shares Currently Held by Spouse and/or Minor Children		Shares Held in the Name of Other Persons		Significant Experience and Education (Note 2)	Positions currently held in other companies	Managers who have spousal or second-degree family relationships within the Company		
					Number of shares	Percentage	Number of Shares	Percentage	Number of Shares	Percentage			Title	Name	Relationship
General Manager	Republic of China	Lin, Yan-Shen	Male	2008.06.30	2,150,000	3.00%	468,000	0.65%	0	0	Public Relations, Shih Hsin University Manager of 3M, USA President, Chuan-Yi Investment Inc. Director, Chuan-Yi Investment Inc.	Supervisor, Taiwan Home Care Co., Ltd Person-in-charge of LEMAX COMPANY LIMITED Person-in-charge of United Medical (B.V.I.) Corporation Person-in-charge of UOC America Holding Corporation Person-in-charge of UOC USA INC. Vice-President, Shinva United Orthopedic Corporation President, A-Spine Asia Co., Ltd. Director of United Biotech Japan Co., Ltd. Person-in-charge of UOC Europe Holding SA	None	None	None
Deputy General and Director of Department of Operating Center	Republic of China	Liau, Jiann-Jong	Male	2016.07.01	17,871	0.02%	0	0	0	0	Graduate School of Engineering, School of Technology and Engineering of National Yang Ming University Project Manager, United Orthopedic Corporation Assistant Professor, National Taiwan University	Director, President, A-Spine Asia Co., Ltd.	None	None	None
Deputy General Manager and Director of Department of Operating Center	Republic of China	Peng, Yu-Hsin	Female	2016.10.01	132,661	0.18%	0	0	0	0	Statistics, Tamkang University Financial Manager, Chuan-Yi Investment Inc. President, Taiwan Home Care Co., Ltd	Director, President, A-Spine Asia Co., Ltd. Director, United Biotech Japan Co., Ltd.	None	None	None
Research and Development Center Divisional Head	Republic of China	Ho,Fang-Yuan	Female	2016.07.01	974	0.00%	2,000	0.00%	0	0	Graduate Institute of Materials Science & Engineering, National Taiwan University Assistant Researcher, Mackay Memorial Hospital	None	None	None	None

Operation Center Divisional Head	Republic of China	Chou, Chin-Jung	Male	2016.07.01	10,038	0.01%	0	0	0	0	Mechanical Engineering Ph.D., National Cheng Kung University Metal Industries Research & Development Center—Vice Director of Department of Medical Equipment and Optoelectronic Equipment Secretary-General, Taiwan Forging Association	None	None	None	None
Department of Finance and Accounting Divisional Head	Republic of China	Teng,Yuan-Chang	Male	2016.10.03	0	0.00%	0	0	0	0	Business Administration, Tamkang University University of Illinois Manager, Finance Department, Visera Technologies Co., Ltd. Assistant General Manager, Pihsiang Machinery MFG. Co., Ltd.	Supervisor,, A-SPINE Asia Co., Ltd.	None	None	None

Note 1: Shall include information General Manager, Deputy General Manager, Assistant General Managers, Supervisors of Departments and Branch Agencies. Details of people holding positions equivalent to General Manager, Deputy General Manager, or Assistant General Managers shall also be disclosed.

Note 2: For current positions in a CPA firm or affiliates in the first term mentioned above, please explain the roles of titles and duties of such positions.

3. Compensation to Directors, Supervisory Board Members, President and Vice-Presidents

(1) Companies may choose to disclose the names and their remuneration levels, or the method of individual disclosure of the names and their remuneration: the Company shall adopt the former method.

i. Remuneration of directors (including independent directors) (summary of matching level)

Unit: 1000 NT$; December 31, 2016

Title	Name	Remuneration of Directors								The ratio of total amount of A, B, C, D to the NIAT (Note 10)		Remuneration Paid to Concurrent Employees								Proportion of NIAT after summing up items A, B, C, D, E, F, and G (Note 10)		Whether or not the person receives remuneration from other non-subsidiary companies that this company has invested in (Note 11)
		Remuneration (A) (Note 2)		Retirement Pension (B)		Director's compensations (C) (Note3)		Business execution fees (D) (Note 4)				Salaries, bonuses, and special expenses (E) (Note 5)		Retirement pension (F)		Employee remuneration (G) (Note 6)						
		CCSB	Companies in the consolidated financial statements (Note 7)	CCSB	Companies in the consolidated financial statements (Note 7)	CCSB	Companies in the consolidated financial statements (Note 7)	CCSB	Companies in the consolidated financial statements (Note 7)	CCSB	Companies in the consolidated financial statements (Note 7)	CCSB	Companies in the consolidated financial statements (Note 7)	CCSB	Companies in the consolidated financial statements (Note 7)	CCSB		Companies in the consolidated financial statements (Note 7)		CCSB	Companies in the consolidated financial statements (Note 7)	
																Cash	Stock	Cash	Stock			
Chairman	Lin, Yan-Shen	0	0	0	0	4,824	4,824	960	960	3.9%	3.9%	6,584	6,584	0	0	2,103	0	2,103	0	9.9%	9.9%	None
Director	Lin, Chun-Sheng																					
Director	Hau, Hai-Yen																					
Director	Chi-Yi Investment Co. Ltd. Lee, Chi-Fung																					
Director	Ng Chor																					

	Wah Patrick																					
Independent Director	Wang, Yueh-Cheng																					
Independent Director	Lee, Chin-hsien																					
*Unless disclosed above, the remuneration of the directors of the current year for providing services (e.g. serving as a non-employee consultant) to the companies listed in this financial report.																						

Executive Compensation by Level

Table of Remuneration Range for Directors	Name			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company (Note 8)	All companies listed in this financial report (Note 9) H	The company (Note 8)	All companies listed in this financial report (Note 9) I
Less than NT$2,000,000	Lin, Yan-Shen, Lin, Chun-Sheng, Ng Chor Wah Patrick, Chi-Yi Investment Co. Ltd, Hau, Hai-Yen, Lee, Chin-hsien, Wang, Yueh-Cheng	Lin, Yan-Shen, Lin, Chun-Sheng, Ng Chor Wah Patrick, Chi-Yi Investment Co. Ltd, Hau, Hai-Yen, Lee, Chin-hsien, Wang, Yueh-Cheng	Lin, Yan-Shen, Ng Chor Wah Patrick, Chi-Yi Investment Co. Ltd, Hau, Hai-Yen, Lee, Chun-hsien, Wang, Yueh-Cheng	Lin, Yan-Shen, Ng Chor Wah Patrick, Chi-Yi Investment Co. Ltd, Hau, Hai-Yen, Lee, Chin-hsien, Wang, Yueh-Cheng
NT$2,000,000 (included)~NT$5,000,000 (not included)	None	None	None	None
NT$5,000,000 (included)~NT$10,000,000 (not included)	None	None	Lin, Yan-Shen	Lin, Yan-Shen
NT$10,000,000 (included)~NT$15,000,000 (not included)	None	None	None	None
NT$15,000,000 (included)~NT$30,000,000 (not included)	None	None	None	None
NT$30,000,000 (included)~NT$50,000,000 (not included)	None	None	None	None
NT$50,000,000 (included)~NT$100,000,000 (not included)	None	None	None	None
More than NT$100,000,000	None	None	None	None
Total	7 people	7 people	7 people	7 people

Note 1: The names of directors will be listed separately (names of institutional shareholders and representatives will be listed separately), and the payment amounts will be disclosed collectively. If a director also serves as a general manager or deputy general manager, he/she should fill up this form and (3-1) or (3-2) below.

Note 2: Remuneration of directors in 2015 (including salaries, remuneration, severance, bonuses, and performance fees).

Note 3: Remuneration paid to directors in 2016 on the approval by the Board of Directors.

Note 4: Business expenses paid out to directors in the past year (including transport, special expenses, various allowances, accommodation, vehicles, and provision of physical goods and services). If housing, vehicle or other means of transportation, or personal expense are provided, the nature and cost of the asset provided, the rental calculated based on the actual cost or the fair market value, fuel, and other payments shall also be disclosed. If a driver is provided, please show the remuneration paid to such driver. However, such remuneration shall not be included.

Note 5: Remuneration for directors concurrently holding positions in the company in the past year (for positions that include the General Manager, Deputy General Manager, other managerial officers, or employees) shall include salaries, remuneration, severance, bonuses, performance fees, transport fees, special expenses, various subsidies, accommodation, vehicles, and other physical items, etc. If housing, vehicle or other means of transportation, or personal expenses are provided, the nature and cost of the asset provided, the rental calculated based on the actual cost or the fair market value, fuel, and other payments shall also be disclosed. If a driver is provided, please show the remuneration paid to such driver. However, such remuneration will not be included. Remuneration disclosed in accordance with IFRS 2 (Share-based Payment), including employee stock options, employee restricted new stock and shares subscribed from cash capital increase, shall also be calculated as part of the compensation.

Note 6: For directors concurrently holding positions in the company in the most recent year (including General Manager, Deputy Manager, other managerial officers, or employees) and receiving the remuneration (including stock and cash), the employee's remuneration paid in 2015 on the approval by the Board of Directors shall also be disclosed. If such remuneration cannot be estimated, the remuneration to be paid in 2015 shall be based on the proportion of remuneration distributed last year and filled in Schedule 1-3.

Note 7: The total remuneration on various counts paid to the Company's directors by all companies (including this Company) listed in the consolidated statement has to be shown.

Note 8: For the total remuneration on various counts paid to the Company's directors, their names be included in the corresponding range of remuneration.

Note 9: Total remuneration on various counts paid to every director of this Company by all companies (including this Company) listed in the consolidated statement has to be shown. The names of the directors shall be listed in the proper remuneration range.

Note 10: Net income after tax refers to the net income after tax in the past year. If IFRS is adopted, the net income after tax refers to the net income after tax in each individual company only or individual financial report in the past year.

Note 11: a. Remuneration received by the Company's directors from other non-subsidiary companies invested by the Company shall be shown in this column.

b. If the director receives remuneration from investments in other companies that are not subsidiaries of this company, the said remuneration shall be included in Column J in the remuneration range table. The name of the column shall also be changed to “All investments in other companies”.

c. Remuneration in this case refers to remuneration, fees (including remuneration as a company employee, director, or supervisor), business expenses, and other related payments received by the director of this Company for being a director, supervisor, or managerial officer of other non-subsidiary companies that this company has invested in.

＊The content of compensation discussed in this table is calculated based on a concept different from that of income stipulated in the Income Tax Act. The content of this table is provided for the purpose of information disclosure, not for taxation purpose.

ii. Supervisor’s remuneration

Unit: 1,000 NT$; Year 2016

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="6">Supervisor’s remuneration</th><th colspan="2" rowspan="2">Proportion of NIAT after summing up items A, B, and C (Note 8)</th><th rowspan="3">Whether the person receives remuneration from other no subsidiary companies that this company has invested in (Note 9)</th></tr>
<tr><th colspan="2">Base Compensation (A) (Note 2)</th><th colspan="2">Compensation (B) (Note 3)</th><th colspan="2">Business execution fees (C) (Note 4)</th></tr>
<tr><th>CCSB</th><th>All companies listed in this financial report (Note 5)</th><th>CCSB</th><th>Companies in the consolidated financial statements (Note 5)</th><th>CCSB</th><th>All companies listed in this financial report (Note 5)</th><th>CCSB</th><th>Companies in the consolidated financial statements (Note 5)</th></tr>
<tr><td>Supervisor</td><td>Wang, Ching-Hsiang</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">1,440</td><td rowspan="3">1,440</td><td rowspan="3">1.0%</td><td rowspan="3">1.0%</td><td rowspan="3">0</td></tr>
<tr><td>Supervisor</td><td>Chen, Li-Ju</td></tr>
<tr><td>Supervisor</td><td>Wong, Chi-Yin</td></tr>
</table>

Executive Compensation by position

<table>
<tr><th rowspan="3">Remuneration Brackets for the Company's supervisors</th><th colspan="2">Name of Supervisor</th></tr>
<tr><th colspan="2">Total of (A+B+C)</th></tr>
<tr><th>The company (Note 6)</th><th>All companies listed in the financial report (Note 7) D</th></tr>
<tr><td>Less than NT$2,000,000</td><td>Wang, Ching-Hsiang, Chen, Li-Ju,
Wong, Chi-Yin</td><td>Wang, Ching-Hsiang, Chen, Li-Ju, Wong, Chi-Yin</td></tr>
<tr><td>NT$2,000,000 (included)~NT$5,000,000 (not included)</td><td>None</td><td>None</td></tr>
<tr><td>NT$5,000,000 (included)~NT$10,000,000 (not included)</td><td>None</td><td>None</td></tr>
<tr><td>NT$10,000,000 (included)~NT$15,000,000 (not included)</td><td>None</td><td>None</td></tr>
<tr><td>NT$15,000,000 (included)~NT$30,000,000 (not included)</td><td>None</td><td>None</td></tr>
<tr><td>NT$30,000,000 (included)~NT$50,000,000 (not included)</td><td>None</td><td>None</td></tr>
<tr><td>NT$50,000,000 (included)~NT$100,000,000 (not included)</td><td>None</td><td>None</td></tr>
<tr><td>More than NT$100,000,000</td><td>None</td><td>None</td></tr>
<tr><td>Total</td><td>3 persons</td><td>3 persons</td></tr>
</table>

Note 1: The names of directors shall be shown separately (names of institutional shareholders and representatives shall be shown separately) and total payments received be disclosed.

Note 2: Supervisor's remuneration in 2015 (including supervisor’s salary, job remuneration, severance pay, various bonuses, and performance fees).

Note 3: Remuneration paid to directors in 2016 on approval by the Board of Directors.

Note 4: Business expenses paid to supervisors in 2015 (including transport, special expenses, various allowances, accommodation, vehicles, and provision of physical goods and services). If housing, vehicle or other means of transportation, or personal expense are provided, the nature and cost of the asset provided, the rental calculated based on the actual cost or the fair market value, fuel, and other payments be disclosed. Where a driver is provided, record the remuneration paid to such driver. However, such remuneration should not be included.

Note 5: Total remuneration on various counts paid to this Company's supervisors by all companies (including this Company) listed in the consolidated statement shall be shown.

Note 6: For the total remuneration on various counts paid to the Company's supervisors, and their names shall be shown in the corresponding range of remuneration.

Note 7: Total remuneration paid on all counts to all supervisors of the Company by all companies (including this Company) listed in the consolidated statement shall be shown in the proper remuneration range.

Note 8: Net income after tax (NIAT) refers to the after tax net income in the past year. If IFRS is adopted, NIAT refers to after tax net income of each individual company or in each individual financial report of the past year.

Note 9: a. The remuneration the company's supervisor receives from other non-subsidiary companies that this company has invested in shall be disclosed in this column.

b. If the supervisor receives remuneration from investments in other companies that are not subsidiaries of this company, the said remuneration shall be included in Column D in the remuneration range table. The name of the column shall also be changed to “All investments in other companies”.

c. Compensation refers to remunerations (including remuneration for employees, directors and supervisors), rewards and reimbursement of expenses received by the supervisors of the Company in their capacity as directors, supervisors or executive officers of non-subsidiary companies invested by the Company.

＊ The content of compensation disclosed in the table is calculated based on a concept different from that of income stipulated in the Income Tax Act. The content of the table is provided for the purpose of information disclosure, and not for taxation purpose.

iii. Remuneration for the General Manager and the Deputy General Manager

Unit: 1,000 NT$; Year 2016

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="2">Remuneration(A)(Note 2)</th><th colspan="2">Retirement Pension (B)</th><th colspan="2">Bonuses and special expenses (C) (Note 3)</th><th colspan="4">Profit Sharing Employee Bonus (D)(Note 4)</th><th colspan="2">The ratio (%) of total amount of A, B, C, D to the NIAT (Note 8)</th><th rowspan="3">Whether or not the person receives remuneration from other non-subsidiary companies that this company has invested in (Note 9)</th></tr>
<tr><th rowspan="2">CCSB</th><th rowspan="2">All companies listed in this financial report (Note 5)</th><th rowspan="2">CCSB</th><th rowspan="2">All companies listed in this financial report (Note 5)</th><th rowspan="2">CCSB</th><th rowspan="2">All companies listed in this financial report (Note 5)</th><th colspan="2">CCSB</th><th colspan="2">All companies listed in this financial report (Note 5)</th><th rowspan="2">CCSB</th><th rowspan="2">All companies listed in this financial report (Note 5)</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>General Manager</td><td>Lin, Yan-Shen</td><td rowspan="3">12,051</td><td rowspan="3">12,051</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">4,373</td><td rowspan="3">0</td><td rowspan="3">4,373</td><td rowspan="3">0</td><td rowspan="3">11.2%</td><td rowspan="3">11.2%</td><td rowspan="3">None</td></tr>
<tr><td>Vice-President</td><td>Liau, Jiann-Jong</td></tr>
<tr><td>Vice-President</td><td>Peng,Yu-Hsin</td></tr>
</table>

*Regardless of designations, remunerations of employees with position equivalent to General Manager and Deputy General Manager (such as president, CEO, director) shall be disclosed.

Executive Compensation by position

Remuneration Brackets of General Managers and Deputy General Managers	Name	
	The company (Note 6)	All companies in the consolidated statement (Note 7) E
Less than NT$2,000,000	None	None
NT$2,000,000 (inclusive)~NT$5,000,000	Liau, Jiann-Jong, Peng,Yu-Hsin	iau, Jiann-Jong, Peng,Yu-Hsin
NT$5,000,000 (inclusive)~NT$10,000,000	Lin, Yan-Shen	Lin, Yan-Shen
NT$10,000,000 (inclusive)~NT$15,000,000	None	None
NT$15,000,000 (inclusive)~NT$30,000,000	None	None
NT$30,000,000 (inclusive)~NT$50,000,000	None	None
NT$50,000,000 (inclusive)~NT$100,000,000	None	None
More than NT$100,000,000	None	None
Total	3 persons	3 persons

Note 1: Names of the President and Vice-Presidents shall be disclosed separately and grouped into different remuneration levels. If a director also serves as a general manager or deputy general manager, he/she should fill up this form and the (1-1) or (1-2) above.
Note 2: Remuneration, executive differential pay and severance pay to the President and Vice Presidents.
Note 3: Cash and non-cash compensations to the President and Vice Presidents in the most recent year, including bonus, reward, and reimbursement of expenses, special allowances, various subsidies, housing and use of vehicle. If housing, vehicle or other means of transportation, or personal expense is provided, the nature and cost of the asset provided, the rental calculated based on the actual cost or the fair market value, fuel, and other payments shall be disclosed. If a driver is provided, please note the remuneration paid to such driver. However, such remuneration shall not be included. Remunerations disclosed in accordance with IFRS 2 (Share-based Payment), including employee stock options, employee restricted new stock and shares subscribed from cash capital increase, shall also be calculated as part of the compensations.
Note 4: Employee remunerations (including shares and cash) given to the General Manager and Deputy General Manager approved by the Board of Directors in the most recent fiscal year shall be disclosed. But, if an estimated figure cannot be derived, this year's budgeted compensations shall be calculated based on last year's actual compensations and the attached tables 1 to 3 shall be filled out. Net income after tax (NIAT) refers to after-tax net income for the most recent fiscal year. For those adopted IFRS, NIAT refers to after-tax net income in individual or consolidated financial reports for the most recent fiscal year.
Note 5: Total remuneration paid out to this Company's General Manager and Deputy General Manager by all companies (including CCSB) listed in the consolidated statement shall be disclosed.
Note 6: Compensations paid to the President and Vice Presidents by CCSB - Names of the President and Vice Presidents are disclosed in the corresponding range.
Note 7: For the remunerations paid to the General Manager and Deputy General Manager by all companies included in the consolidated statements (including CCSB), the names of the General Manager and Deputy General Manager shall be disclosed in the corresponding range.
Note 8: Net income after tax (NIAT) refers to the after tax net income in the most recent year. If IFRS is adopted, the NIAT refers to after tax net income disclosed by each individual company or in each individual financial report of the most recent year.
Note 9: a. The remuneration the company's general manager and deputy general manager receives from other non-subsidiary companies that this company has invested in shall be disclosed in this column.
b. If the Company's General Manager and Deputy General Manager received remunerations from companies other than non-subsidiaries companies, the remunerations received by the General Manager and Deputy General Manager shall be included in Column E of the table and the column shall be renamed as “All re-investment businesses”.
c. Remuneration in this case shall refer to remuneration, compensation (including remuneration as a company employee, director, or supervisor), business expenses, and other related payments received by the General Managers or Deputy General Managers of this Company for being a director, supervisor, or managerial officer of other non-subsidiary companies that this company has invested in.

＊The compensation shown in the table is calculated based on a concept different from that of income stipulated in the Income Tax Act. The content of this table is provided for the purpose of information disclosure, and not for taxation purpose.

iv. Names of managerial officers provided with employee's compensation and state of payments

Year 2016

	Title	Name	Stock	Cash	Total	The ratio (%) of total amount to the NIAT
Manager	Chairman	Lin, Yan-Shen	0	5,826	5,826	3.97%
	Vice President	Liau, Jiann-Jong				
	Deputy General Manager	Peng,Yu-Hsin				
	Director, Operating Center	Chou, Chin-Jung				
	Director, Research and Developing Center	Ho, Fang-Yuan				
	Director, Department of Finance and Accounting	Teng, Yuan-Chang				

Note 1: Individual names and titles have to be shown, but profit received can be shown as total sum.

Note 2: Employee remuneration (including shares and cash) given to the General Manager and Deputy General Manager approved by the Board of Directors in the past fiscal year has to be shown. But, if an estimate cannot be arrived at, this year's budgeted compensation shall be calculated based on the actuals last year. Net income after tax (NIAT) refers to after-tax net income of the past fiscal year. For those adopting IFRS, NIAT refers to after-tax net income of each individual company or individual financial reports in the past fiscal year.

Note 3: The term "executive" refers to the positions listed below, as provided in the Financial Supervisory Commission Memorandum No. 0920001301 of March 27, 2013:

(1) General Manager and its equivalent
(2) Deputy General Manager and its equivalent
(3) Vice-President and its equivalent
(4) Chief of Finance
(5) Chief of Accounting
(6) Other personnel with the authority to manage company affairs and sign for approval.

Note 4: If the Directors, General Manager or Deputy General Managers in the company receive employee benefits (including shares and cash), fill out Tables 1 and 2, as well as this table.

(2) For companies that exhibit one of the following features, the remuneration of individual director and supervisors shall be shown as follows:

i. The remuneration of individual director and supervisor of a company or an individual financial report that show net losses after tax over the past two years, has to be disclosed. (However, an individual company or individual financial report that shows net income after tax and has made up the losses over the past two years is not subject to the restriction): Not Applicable.

ii. The remuneration of individual Director, who did not hold sufficient shares for three consecutive months over the past year, has to be disclosed. The remuneration of individual Supervisor who did not hold sufficient shares for three consecutive months over the past year, has to be disclosed: No such situation for the Company.

iii. For Directors and Supervisors who have pledged more than 50% of their shares in any of the three months of the past year, and the remuneration of the Directors and Supervisors who have pledged more than 50% in any particular month their details be disclosed: No such situation for the Company.

iv. If the total remuneration received by all of the directors and supervisors in their capacity as directors or supervisors of all of the companies listed in the financial reports exceeds 2 percent of the net income after tax, and if the remuneration received by any individual director or supervisor exceeds NT$15 million, the company shall disclose the remuneration paid to that individual director or supervisor: The company does not have any individual falling in this group.

(3) Compare and analyze the total remuneration as a percentage of net income stated in the parent company financial reports or individual financial reports, paid by this company and by all consolidated entities over the past two fiscal years to each of the company's directors, supervisors, general managers, and assistant general managers, and describe the policies, standards, and packages for payment of remuneration, the procedures for determining remuneration, and its linkage to business performance and future risk exposure.

A. The total remuneration paid by the company and by all consolidated entities over the past two fiscal years as a percentage of net income stated in the individual financial reports of the Company or individual financial reports to each of the company's directors, supervisors, general managers, and assistant general managers is as follows:

Title		The ratio of remuneration of the Directors, Supervisors, General Manager, and Deputy General Manager in 2015 to the net income stated in the parent company's financial reports or individual financial reports	The ratio of remuneration of the Directors, Supervisors, General Manager, and Deputy General Manager paid by all the companies in consolidated statement in 2015 to the net income stated in the parent company financial reports or individual financial reports	The ratio of remuneration of the Directors, Supervisors, General Manager, and Deputy General Manager in 2016 to the net income stated in the parent company financial reports or individual financial reports	The ratio of remuneration of the Directors, Supervisors, General Manager, and Deputy General Manager paid by all of the companies in consolidated statement in 2016 to the net income stated in the parent company financial reports or individual financial reports
Director	First 4 items	1.6%	1.6%	3.9%	3.9%

	First 7 items	7.4%	11.2%	9.9%	9.9%
Supervisor		0.8%	0.8%	1.0%	1.0%
President and Vice-Presidents		5.0%	8.8%	11.2%	11.2%

B. Policies, standards, and package of remuneration, as well as the procedures for determining remuneration, and its linkage to business performance and future risk exposure:

i. With regards to the remuneration for Directors and Supervisors, the Company does not pay the Directors and Supervisors except for the Independent Directors/Supervisors. In case where the Directors hold a separate position in the Company, the remuneration will be in accordance with the remuneration policy of the Company.

ii. The remuneration for the General Manager and Deputy General Manager is paid as per the level in the industry, the functionality of the position, and the contribution made to the company's objectives.

iii. The procedure for determining the remuneration in the company: In accordance with the standards of the industry. In addition, performance bonus is given as preoperational performance and personal contribution.

iv. Future risks: The Company has obtained liability insurance for the Directors, Supervisors and managerial officers. The company follows conservative policies in financial operations. There are no high risks and highly leveraged investments over the past two years, and no loans have been given. Therefore, no risks are seen from the situation.

4. Implementation of Corporate Governance

(1)Operation of Board of Directors

The Board met eight times during the past year. The table below shows the attendance of directors and supervisors:

Title	Names (Note 1)	Actual attendance in person (B)	Attendance by proxy	Rate of actual attendance in person (%)【B/A】(Note 2)	Remark
Chairman	Lin, Yan-Shen	8	0	100%	None
Director	Lin, Chun-Sheng	8	0	100%	None
Director	Hau, Hai-Yen	5	0	62.5%	None
Director	Ng Chor Wah Patrick	2	0	25%	None
Director	Chi-Yi Investment Co. Ltd. Representative: Lee, Chi-Fung	7	1	87.5%	None
Independent Director	Lee, Chun-hsien	6	1	75%	None
Independent Director	Wang, Yueh-Cheng	7	1	87.5%	None
Supervisor	Wong, Chi-Yin	6	0	75%	None
Supervisor	Wang, Ching-Hsiang	7	0	87.5%	None
Supervisor	Chen, Li-Ju	8	0	100%	None

Other disclosures:

1. Should any of the following take place at a board meeting, the date and number of the meeting, the content of the proposal, independent director's opinion and the Company's response to such opinions should be recorded.

i. Items listed in Section 3, Article 14 of the Securities and Exchange Act.

ii. Other than the matters mentioned above, other resolutions that have been objected to and reserved by the Independent Directors and are documented or stated.

Independent Directors do not have any objections or reservations on important resolutions passed by the Board in 2016.

2. When Directors abstain themselves from voting on certain proposals for being a stakeholder, the name of the Directors, the content of the proposal, the reasons for abstentions and the results of voting counts should be stated.

No Director has abstained from participating in important resolutions passed by the Board in 2016 due to conflict of interest.

3. The goal to enhance the functionality of the Board (such as the establishment of an audit committee and enhancement of transparency of information, etc.) in the current year and the past year:

Note 1: Where Directors and Supervisors are artificial persons, the name of the shareholders and representative of the said artificial person shall be disclosed.

Note 2: (1) Where Directors or Supervisors resign prior to the end of the year, the information be provided in the Notes column along with the date of their resignation. The actual presence (attendance) rate (%) can be calculated using the number of Directors' Meetings convened and the actual presence (attendance) during the term of service.

(2) Where re-elected before the end of the year, the information on both the incoming and outgoing Directors and Supervisors shall be given accordingly. The Notes column shall be annotated if the Director or Supervisor was outgoing, incoming, or re-elected as well as the date of re-election. The actual presence (attendance) rate (%) shall be calculated using the number of Directors' Meetings convened and the actual presence (attendance) during the term of service.

(2) Operation of the Audit Committee or Supervisors' Involvement in the Operation of the Board of Directors:

1. The company does not have an Audit Committee.
2. Supervisors' involvement in the operations of the Board of Directors:

The Board of Directors has held eight meetings during the past year. Information on attendance is provided in the table below:

Title	Name	Actual attendance in person (B)	Rate of actual attendance in person (%)(B/A)	Remark
Supervisor	Wong, Chi-Yin	6	75%	None
Supervisor	Wang, Ching-Hsiang	7	87.5%	None
Supervisor	Chen, Li-Ju	8	100%	None

Other required disclosures:

1. Composition and responsibilities of the supervisors:
   (1)Communication between the supervisors and employees, and shareholders (e.g. channel and method of communication):
   Communication is made directly to the employees or shareholders wherever necessary.
   (2)Communication between supervisors and the head of internal audit and CPA (including issues, audit methods and results relating to the Company's finances and business):
   The Supervisors know of the operations and audit of the company through auditor's reports provided by the auditing units periodically, and learn of the financial status of the company, internal audits, implementation, and items reported by participating accountants with their participation at the Board of Directors' meetings periodically. The Supervisors may also communicate with the accountants directly through phones, mails, and other formats.
2. If the Supervisors have any comments while attending the Directors' Meetings, the date, session, content of the case discussed, and the resolution passed at the Directors' Meeting as well as the Company's opinion as stated by the Supervisors be described: None.

Note:

*In the event a supervisor resigns before the end of the year, the Remark column shall be annotated with the date of resignation. The actual attendance rate (%) shall be calculated based on the number of meetings actually attended during the supervisor's term of service.

*Where Supervisors were re-elected before the end of the year, the details of both the incoming and outgoing Supervisors be given accordingly. The Notes column should state whether the Supervisor was outgoing, incoming, or re-elected as well as the date of re-election. The actual attendance rate (%) is calculated using the number of meetings actually attended during the term of service.

(3)State corporate governance, shortcomings in Corporate Governance Best Practice Principles for TWSE/GTSM-Listed Companies, and the cause of the said gaps

Assessed items	Current Operation (Note)			Deviation from "the Corporate Governance Best-Practice Principles for TWSE/TPEx- Listed Companies" and Reasons
	Yes	No	Summary	
1. Has the Company formulated and disclosed its code of practice on corporate governance based on "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies"?		V	The company's code of practice is not formulated as yet due to the current operating condition of the company. The company plans to promote and implement CSR in 2017. The relevant guidelines and procedures will be formulated by then.	The company operates in accordance with relevant regulations and has in fact implemented in the company. The company has currently stipulated "Guidelines of Shareholders' Meeting", "Elections of Directors and Supervisors", "Board of Directors' Meeting", and "Articles of Remuneration Committee".
2. The shareholding structure of the Company and shareholders' rights (1) Has the Company established an internal SOP to respond to shareholders' suggestions, questions, disputes and lawsuits, and implement them according to existing rules? (2) Is the Company in control of the main shareholders who actually control the Company and the list of final controllers of the main shareholders? (3) Has the Company put in place the mechanism of risk management and firewall among its affiliates? (4) Has the Company established an internal regulation to prohibit its employees to buy and sell any marketable securities using undisclosed information in the market?	V V V V		(1) Currently handled by the Spokesman. (2) Keep in touch with the main shareholders. (3) Conduct in accordance with the relevant regulations of the company. (4) Written internal control system maintained to prevent insider trading in accordance with Article 8 of "Regulations Governing Establishment of Internal Control Systems by Public Companies"	No gaps
3.Organization and responsibilities of the Board of Directors (1) Has the Board of Directors drawn up policies on diversity of its members and implemented them? (2) Has the Company formed any other functional committees, except for the Remuneration Committee and Auditing Committee, which are mandatory	V	 V	(1) Other than the management team, the members of the Board of Directors who are included in the operation of the company include external Directors and Independent Director. (2) The Remuneration Committee has been formed in accordance with regulations. Committees with other	No gaps

Assessed items	Current Operation (Note)			Deviation from "the Corporate Governance Best-Practice Principles for TWSE/TPEx- Listed Companies" and Reasons
	Yes	No	Summary	
under law? (3) Has the Company established any regulations on evaluating the effectiveness of Board of Directors and the method of evaluation; do such evaluations take place annually and periodically? (4) Does the Company assess the independence of Certified Public Accountants on a regular basis?	V V		functions will be formed in accordance with the operation scale of the company. (3) The Remuneration Committee is responsible for periodic evaluation of the performance of the members of the Board of Directors. (4) The Board of Directors has already in place periodic assessment of the independence of Certified Public Accountants.	
4. Has the publicly listed company set up a dedicated unit or appointed a designated personnel to handle governance-related affairs (including but not limited to supplying information requested by the directors and supervisors, processing company registration, change of registration and prepare minutes of the board meetings and shareholder meetings)?	V		The units that are responsible for governing the company are General Office and Department of Finance and Accounting. Other than providing information needed by the Directors and Supervisors to carry out business, they are also responsible for matters related to Shareholders' meeting and the Board of Directors.	No gaps
5. Has your company set up channels of communication for stakeholders (including but not limited to shareholders, employees, customers and suppliers), dedicated a section of your company's website for stakeholder affairs and adequately responded to stakeholders' inquiries on significant corporate social responsibility issues?	V		The acting spokesperson of the company is currently serving as the contact window for the stakeholders, and is responsible for responding to issues and recommendations that are related to shareholders, employees, customers, and suppliers at the stakeholder section that is set up in the company's website.	No gaps
6. Has the Company commissioned a professional shareholder service agency to organize Shareholders' Meeting and handle other relevant affairs?	V		The matter of securities of the company has been delegated to Transfer Agency Department of Jih-Sun Securities Co. Ltd.	No gaps
7. Information Disclosure (1) Has the Company built a website to disclose information on financial statements and corporate governance? (2) Has the Company utilized other methods of information disclosure (such as setting up English website, assigning someone to be responsible for the collection and disclosure of company information, implementing spokesperson system, and releasing the recorded investors' conference on the company	V		The company has set up websites that contain the introduction to the company. Its business operations and financial information. The company has also disclosed information related to governance of company on the Market Observation Post System. The company has set up a link on the company's website and the shareholders and investors may make enquiries on the website by themselves.	The company plans to promote and implement CSR in 2017. The relevant controlling guidelines and instructions will be formulated by then.

Assessed items	Current Operation (Note)			Deviation from "the Corporate Governance Best-Practice Principles for TWSE/TPEx- Listed Companies" and Reasons
	Yes	No	Summary	
website)?				
8. Does the Company have other material information that would provide a better understanding of its corporate governance (Including but not limited to employee's rights, employee care, investor relations, supplier relations, stakeholders' rights, further roles of Directors and Supervisors, implementation of risk management policies and measurement standards, implementation of customer policies and purchase of liability insurance for the Directors and Supervisors of the Company)?	V		(1)The company treats the employee's with trust, and builds relationship with them by providing several benefits and skill training. (2) The training courses of the Directors and Supervisors: The Directors and Supervisors of the company have attended six hours of courses related to governance of the company in 2016. They are updated with regulations related to the governance of the company. (3) The risk management policy and implementation of risk measurement: Not applicable (Applicable to securities firms). (4) Implementation of policies to protect consumers or customers: Not applicable (Applicable to securities firms). (5) The company has purchased liability insurance for the Directors and Supervisors: The company has been purchasing liability insurances for the Directors, Supervisors, and managerial officers since Jan, 2010.	No gaps
9. Please provide information on the status of improvement regarding the results of corporate governance evaluation published by the TWSE Corporate Governance Center in the past year. For improvements not yet implemented, state the areas and policies your company set as priority for improvement. (Leave blank if your company was not evaluated.) The Company is not evaluated.				

Note 1: Provide a brief description in the appropriate column, regardless of whether "yes" or "no" is selected.

- The training courses attended by the Directors and Supervisors in 2016

Title	Name	Date	Organizer	Course Name	Time	Whether it conforms to "Guidelines for training courses of Directors and Supervisors of listed companies"?
Chairman and General Manager	Lin, Yan-Shen	2016/04/13	UBS Group AG	Corporate Governance / Corporate Sustainability Certification Seminar	3 hours	Yes
		2016/12/07	Securities and Futures Institute	Discussion on the Issues of Integration of Human Resources and Mergers and Acquisition during	3 hours	Yes

				the merging of the companies		
Director	Lin, Chun-Sheng	2016/01/26	Securities and Futures Institute	2016 Corporate Governance Forum—Insider Trading and Social Responsibility of the Company Seminar	3 hours	Yes
Director	Lin, Chun-Sheng	2016/04/13	UBS Group AG	Corporate Governance / Corporate Sustainability Certification Seminar	3 hours	Yes
Director	Hau, Hai-Yen	2016/12/16	Securities and Futures Institute	Analyze Legal Risks of Directors and Supervisors in major corporate scandals	3 hours	Yes
Director	Hau, Hai-Yen	2016/12/19	Securities and Futures Institute	Discussion on money laundering and regulation compliance in relation to Megabank case	3 hours	Yes
Representative of Directors of Legal Entity	Lee, Chi-Fung	2016/09/30	Securities and Futures Institute	How should Directors and Supervisors Prevent Insider Trading?	3 hours	Yes
Representative of Directors of Legal Entity	Lee, Chi-Fung	2016/09/30	Securities and Futures Institute	Liability and Risk Control of False Financial Statements—Case Study	3 hours	Yes
Director	Ng Chor Wah Patrick	2016/12/01	Hong Kong Institute of Certified Public Accountants	Annual Taxation Update 2016	3.5 hours	Yes
Director	Ng Chor Wah Patrick	2016/12/01	Hong Kong Institute of Certified Public Accountants	Financial Markets—An Introduction	1.5 hours	Yes
Director	Ng Chor Wah Patrick	2016/12/01	Hong Kong Institute of Certified Public Accountants	Maintaining an Engaging Organization	1 hour	Yes
Independent Director	Wang, Yueh-Cheng	2016/09/13	Securities and Futures Institute	Discussion on the case of representative lawsuit and dismissal lawsuit that are mentioned in Article 10-1 of the Securities Investor and Futures Trader Protection Act	3 hours	Yes
Independent Director	Wang, Yueh-Cheng	2016/10/18	Securities and Futures Institute	Discussion on the liabilities of the Directors and Supervisors on Statement Misrepresenting Case	3 hours	Yes
Independent Director	Lee, Chun-hsien	2016/08/17	Securities and Futures Institute	Conference on the Advanced Practice of Corporate Directors and Supervisors (including Independent Directors and Supervisors)	3 hours	Yes
Independent Director	Lee, Chun-hsien	2016/11/17	Securities and Futures Institute	Analyze Legal Risks of Directors and Supervisors in major corporate scandals	3 hours	Yes
Supervisor	Wong, Chi-Yi	2016/12/13	Accounting Research and Development	Review the implementation of	3 hours	Yes

	n		Foundation	punishment on financial crimes through remand and forbidding communication		
		2016/12/13	Accounting Research and Development Foundation	Corporate control and practical usage on [cash flow]	3 hours	Yes
Supervisor	Wang, Ching-Hsiang	2016/10/13	Taiwan CPA Association, ROC	Assessment of the impact of anti-tax avoidance terms	3 hours	Yes
		2016/11/30	Taiwan CPA Association, ROC	Patent right regulations and practical cases	3 hours	Yes
		2016/12/06	Taiwan CPA Association, ROC	Analyze Case Interpretation on corporate accounting principle	7 hours	Yes
Supervisor	Chen, Li-Ju	2016/11/25	Taiwan CPA Association, ROC	Analyze 2017 Global Overall Economics	3 hours	Yes
		2016/12/03	Taiwan CPA Association, ROC	Calculation and negotiation on technology authorization royalty	3 hours	Yes

(4) Has the company set up a Compensation Committee? If yes, disclose the composition, responsibility and operation of the Compensation Committee:

(1) Information of the Members of the Company's Remuneration Committee:

Identity status (Note 1)	Condition / Name	Does the Director have five or more years of work experience And the following professional qualifications?			Compliance to the independence (note 2)								Number of other public companies where he/she is a member of the compensation committee	Remark End of this section
		Currently serving as a lecturer or a higher post in a private or public college or university in the field of business, law, finance, accounting, or the business sector of the Company	Currently serving as a judge, prosecutor, lawyer, accountant, or other professionals or technician who complete national examinations and have specialized license.	Work experience necessary for business administration, legal affairs, finance, accounting, or business sector of the Company	1	2	3	4	5	6	7	8		
Independent Director	Lee, chun-hsien			✓	✓	✓	✓	✓	✓	✓	✓	✓	None	
Independent Director	Wang, Yueh-Cheng	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	None	
Others	Lee, Kuen-Chang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	2	

Note 1: Please identify whether the person is a Director, Independent Director, or of any other position.

Note 2: Please tick the boxes below against each criterion if a member meets these conditions within two years prior to being elected and during his/her term of service.

(1) Not an employee of the Company or any of its affiliates.

(2) Not a director or supervisor of the Company or any of its affiliates. This does not apply in cases where the person is an independent director of the Company, its parent company, or a subsidiary where the Company holds, directly and indirectly, more than 50% of the voting shares. Independent directors appointed by the Company, its parent company or its subsidiaries in accordance with this Act or the local regulations are not limited by this clause.

(3) Not a natural person shareholder who holds more than 1% of issued shares or is ranked top 10 in terms of the total quantity of shares held, including the shares held in the name of the person's spouse, minor children, or others.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship in the preceding three paragraphs.

(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds more than 5% of the total number of issued shares of the Company or is ranked top 5 in terms of quantity of shares held.

(6) Not a Director, Supervisor, managerial officer, or shareholder holding more than 5% of shares of a specified company or institution that has a financial or business relationship with the Company.

(7) Not a professional individual or owner, partner, Director, Supervisor, or managerial officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting, or consultation services to the Company or to any affiliated business, or spouse thereof.

(8) Where none of the circumstances in the subparagraphs of Article 30 of the Company Act applies.

(2) Operating Conditions of the Company's Remuneration Committee:

1. There are totally three members in the Remuneration Committee.
2. Duration of the current term of service: June 23, 2014 to June 22, 2017. Four Remuneration Committee meetings (A) were held in the past year. The qualification of members and attendance are shown below:

Title	Name	Actual attendance in numbers (B)	Attendance by proxy	The actual attendance rate (%) (B/A) (Note)	Remark
Convener	Lee, Chun-Hsien	3	0	75%	
Committee Member	Wang, Yueh-Cheng	3	0	75%	
Committee Member	Lee, Kuen-Chang	4	0	100%	
Other required disclosures: 1. If the Board of Directors choose not to adopt or revise recommendations proposed by the Salary and Remuneration Committee, the date of the Directors' Meeting, session, contents discussed, outcome of meeting resolutions, and the company's opinions provided by the Salary and Remuneration Committee be described in detail (also, where the salary and remuneration approved by the Directors' Meeting is better than that recommended by the Salary and Remuneration Committee, the differences and the reason for the approval be described in detail). The recommendations of Compensation Committee for the year 2016 have been approved by the Board of Director. 2. Comments of members who vetoed or differed from the decisions made by the Remuneration Committee, be recorded in the records along with the date, the number, the content of the motion, opinions of all members, and ways in meeting the objections should be elaborated. There were no objections or reservations to the resolution of the Compensation Committee for the year 2016.					

Note:(1)When members of the Salary and Remuneration Committee resign before the end of the year, the Notes column should contain the date of resignation. The rate of actual presence (%) be calculated using the number of Salary and Remuneration Committee meetings convened and the actual presence during the term of service.

(2)When an election is held for the Remuneration Committee before the end of the year, members of both the new and old committee shall be listed in separate columns and noted as new, old or reelected members, along with the date of election in the remark column. The actual attendance rate (%) shall be calculated based on the number of meetings held during the member's term in the compensation committee and the number of days of actual attendance of this member.

(5)Implementations of Corporate Social Responsibility

Assessed items	Current Operation (Note 1)			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies and root causes
	Yes	No	Brief Description (Note 2)	
1. Implementing corporate governance (1) Has the Company established a corporate social responsibility (CSR) policy or system, and assessed the effectiveness of implementation?	V		(1) The company has separately formulated working guidelines and SOP regulations. The company plans to promote and implement CSR in 2017. The CSR policies or regulations will be stipulated then.	No gaps
(2) Does the Company periodically hold CSR training?	V		(2) The company holds periodic and occasional employee training programs to ensure compliance with company safety and health guidelines of CSR, SOP, and to award incentives or disincentives in accordance with working regulations and personnel regulations.	
(3) Has the Company established a designated full-(part) time unit to promote CSR, and has the Board authorized senior management to deal with and then report	V		(3) CSR is jointly handled by the Board of Directors, General Manager's Office, and Department of Administration and Management.	

Assessed items	Current Operation (Note 1)			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies and root causes
	Yes	No	Brief Description (Note 2)	
to the Board on implementation? (4) Has the Company established a fair remuneration policy and linked employee performance evaluation with CSR policy as well as established a precise and effective incentive and disincentive system?	V		(4) The company has formulated performance assessment methods combining remuneration policies to share the company's operating results with the employees.	
2. Developing sustainable environment (1) Does the Company strive to enhance the utility rate of all resources and use renewable materials that lower the impact on the environment? (2) Has the Company formulated a suitable environmental management system in relation to industry standards? (3) Has the Company paid attention to the impact of weather changes on its operational activities; in addition, has it carried out inspection on greenhouse gases, and implemented strategies to conserve energy and to lower CO2 emissions and greenhouse gases?	V V V		(1) The recycling and reuse of company's waste is entrusted to a waste cleaning company. Waste water and rain water recycle device is planned for new plants, and the new plants comply with energy saving requirements. (2) The company is compliant with the relevant the regulations on public safety of buildings, fire regulations, labor safety regulations, waste disposal regulations, energy saving and carbon reduction management stipulated by Science and Industrial Park. The company also conducts inspection and reports regularly. (3) The company is engaged in an industry that produces non-energy consuming and non-high pollution products. The company will continue to observe the impact of climates on the operating activities of the company, and carry out strategic and action plans to save energy and reduce carbon emission.	No gaps
3. Social Welfare Measures (1) Has the Company formulated management policy and procedures as per laws and regulations and the International Human Rights Treaty? (2) Has the Company established employee complaint mechanism and channels, and has it handled them appropriately? (3) Has the Company offered a safe and healthy work environment for its employees, and routinely implemented safety and health	V V V		(1) The personnel guidelines of the company re superior to the Labor Standards Act. Any major changes in employee rights will be negotiated in labor meetings. Currently, labor relations are harmonious. (2) The company has set up a hotline for employee complaints and established management procedures to deal with the issues raised. (3) The company conducts periodic health examination on employees in accordance with the policies. Each plant has established Department of Construction Safety that directly reports to the	No gaps

Assessed items	Current Operation (Note 1)			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies and root causes
	Yes	No	Brief Description (Note 2)	
education for the employees?			General Manager, holds labor Safety and Health Committee meets periodically, and evaluates employee work environment to provide a healthy work environment for the employees.	
(4) Has the Company established a periodic communications mechanism, and alerts operational changes that may impact its employees significantly in a fair manner?	V		(4) The company has formed Labor Committee and holds labor meetings periodically to negotiate matters with regards to labor relations. The Committee also discloses the revenue of the company and material matters of each departments to the employees every month.	
(5) Has the Company established an effective career development plan for its employees?	V		(5) Each department of the company has planned annual training for its respective employees to comply with the requirements of the job.	
(6) Has the Company established consumer rights protection policy and compliant procedures in terms of R&D, Procurement, Production, Operations, and Customer Support?	V		(6) SOP has been set up for the workflow of the company and the relevant records have been documented. The customer complaint channels have been clearly labeled on the product. Stakeholder section has been established on the company's website for providing feedback. A complaint handling procedure has been set up in the company to provide effective response to the customers.	
(7) Does the Company comply with related laws, regulations, and international standards pertaining to marketing activities and labels on its products and services?	V		(7) The company's products are related to artificial joints in the human bodies. The sale of products has to go follow strict regulatory certificate procedures.	
(8) Prior to conducting business with suppliers, has the Company evaluated the suppliers of past record of impact on the environment and the society?	V		(8) The suppliers of the Company are required to go through standard certification procedure before they become eligible as suppliers. Relevant production materials are inspected prior to use in the human bodies and for follow-up.	
(9) Does the Company’s contract with its primary supplier contain any immediate termination clause when the supplier violates corporate social responsibility and	V		(9) The contracts between the company and the suppliers are not long-term purchase agreements. All products need inspection before they are added to inventory. Those that fail to meet the inspection standards will be returned. Assessment and field auditing reports will be given to suppliers periodically and the contractor those who fail to meet the requirement will be terminated.	

Assessed items	Current Operation (Note 1)			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies and root causes
	Yes	No	Brief Description (Note 2)	
impacts the environment and the society significantly?				
4. Strengthening the information disclosure (1) On the Company's website and MOPS, has the Company disclosed relevant and reliable information pertaining to corporate social responsibility?		V	The company currently discloses relevant information in the annual report of the company and does not publish it separately.	The company plans to promote and implement CSR in 2017. The relevant information on company's complies with CSR is disclosed on the corporate website.
5. If your company has set up corporate social responsibility practices based on "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx-Listed Companies", please provide detailed information on the differences between your company's practices and the practices provided in the above document: The company has not established practical guidelines with regards to CSR. However, the company conforms with the spirit of "CSR guidelines of listed company" as it is a medical instrument company and is related to the health of the physical body. To carry out CSR, other than providing transparent information, the company strives to achieve internal labor harmony and promote orthopedic medicine externally. The company requires extreme perfection on the quality side to meet customers' expectations. The company continues to promote social welfare activities. The company plans to promote and implement CSR in 2017, and the CSR policies or mechanisms will be stipulated by then.				
6. Other important information helpful in understanding CSR operation: (1) Environmental protection: The company has set up recycle device for production waste, including dust collection equipment, gas gathering equipment, sewage, waste water and waste oil treatment equipment to reduce the impact on employee's body and social environment. (2) Social contribution: provide high-quality artificial joints at a reasonable price, break the monopoly of international corporations in orthopedic market, reduce medical expenses for patients, and reduce the inconvenience of elderly's in movement. Also, it proposes to gradually increase the investment in Taiwan and improve the skills in Taiwan to create more job opportunities and ancillary business opportunities. (3) Consumer rights: The Company has a strict control over the production quality during the production procedure, and all the company's products have been insured under product liability insurance. (4) Human rights: In addition to relevant laws and regulations, the Company has purchased insurance for all employees, and also has set up labor meetings to protect the employees' rights and interests. The company also takes into account the price level and the profitability of the company to adjust the employee's salary and share the benefits from company's operating results. (5) Safety and Health: The Company has established a Department of Construction Safety to inspect and improve labor environment periodically and hold safety training for the employees to conduct health examination periodically. The production and quality inspection of the products have been regulated by the SOP to ensure the safety of the product.				
7. Provide detailed information if the company's CSR Report has been certified by an accreditation agency: The company does not currently have CSR reports. The 2016 CSR report is scheduled to be completed by 2017.				

(6)Your company's corporate integrity practices and action taken:

Assessed items	Current Operation (Note 1)			Shortcomings in the Ethical Corporate Management Best Practice Principles of TWSE/TPEx-Listed Companies, and the reasons for shortcomings
	Yes	No	Summary	
1. Formulating policies and plans for integrity (1) Does the company specify the policies and methods of operation based on integrity in its regulations and in external document, and does the Board of Directors and executives advocate and implement these policies? (2) Has the company formulated any alternative plans which prevent integrity-related issues from taking place, and specified operation procedures, behavioral guidance, penalties and appeal channels in the event of transgressions, and implemented these procedures? (3) Does the company take precautions in the operational activities of higher non-integrity risky behaviors within its operational scope, or incidents pursuant to all sub-paragraphs of Paragraph 2, Article 7 of "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies"?	V V V		(1) The company holds "integrity" as its core value. Integrity has been clearly stated in the personnel regulations and is implemented in daily transactions. (2) The company has embedded relevant plans into regulations such as management regulations, guidelines, and handling procedures, and will fulfill the commitment to integrity through new employee and departmental training. (3) The company has stipulated SOP and regulations in daily operational transactions and provides clear guidelines to deal with dishonest actions.	No gaps
2.Implementation of ethical business operations (1) Has the Company assessed the integrity records of its business partners, and specified ethical business policy in contracts with them? (2) Has the Company established a full (part) time unit directly under the supervision of the Board, which is devoted to promoting corporate ethical business, and routinely reports its implementation to the Board? (3) Has the Company set up policies to prevent	V	V	(1) The contract between the company and the dealing manufactures has clearly stipulated terms related to integrity, and should conform to the relevant regulations. The company may terminate the contract if integrity is breached. (2) The company does not currently have a full (part) time unit devoted to promoting corporate ethical business, but is rather performed by managements of each department in accordance with the regulations of the company. The internal auditing department is responsible for the review of implementation periodically and submit the auditing results to Independent Directors and Supervisors and report to the Board of Directors. (3) The company has set appropriate guidelines in management regulations and has set up channels to prevent the emergence of transactions that	No gaps

Assessed items	Current Operation (Note 1)			Shortcomings in the Ethical Corporate Management Best Practice Principles of TWSE/TPEx-Listed Companies, and the reasons for shortcomings
	Yes	No	Summary	
conflict of interest, and provide an appropriate reporting channel in practice? (4) To implement ethical business policy, has the Company established an effective accounting system and internal control system, and routinely ask the internal auditing unit to verify or entrust accountant to review the systems? (5) Does the Company train in routine internal and external ethical business operations?	V V V		have conflict of interest. (4) The company has set up an internal control system and relevant management regulations for trading cycles. The random review of annual auditing plan will be carried out by internal auditors, and the inspection results submitted to the Directors, Supervisors, and members of the Board of Directors. The execution of these procedures is good. (5) The Company sets internal and external training periodically to enable the employees acquire the required skills for internal regulations to conform with the spirit of integrity.	
3. Operation of whistle-blower mechanism in the Company (1) Has the Company established a material reporting and rewarding system, set up a convenient reporting channel, and designated appropriate personnel to handle the investigations, depending on the identity of the person being reported? (2) Has the Company set up SOP for accepting and investigating reporting cases and relevant confidentiality structure? (3) Has the Company set up a protection plan for the whistleblower to prevent the person from being subjected to pressures from reporting the incident?	V V V		(1) The Company has set up employee opinion feedback mailbox that is handled by the administrative units in accordance with relevant regulations of the Company. (2) The company has set up management guidelines for the opinion mailbox, which include acceptance and handling procedures. (3) The Company has stipulated confidentiality provisions for the opinions provided, which will be handled in accordance with regulations stipulated by the Company.	No gaps
4. Strengthening information disclosure (1) Has the Company disclosed the content and effectiveness of implementing its ethical corporate policy on its website and MOPS	V		Even though the company's website does not have sections on disclosing integrity operations, the Company believes in its core value of integrity which has been outlined in the Company's introduction.	No gaps
5. Where the company has set its own best practices on ethical corporate management according to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies, please describe any gaps between the prescribed best practices and actual activities undertaken by the company: Despite the company currently not having its own integrity operation guidelines, the company's operating philosophy and management regulations are in line with those of "Integrity Operation Guidelines for Listed Companies". The core values of the company— "integrity", "responsibility", "happiness", and "innovation"—are being gradually implemented among the company's employees at all levels. The management has set regulations such as working regulations, management practices, handling procedures, and SOP for daily operational management. All operations of the company uphold the commitment to integrity of operations through the overseeing of auditing unit; risk management mechanism executed by Independent Directors and Supervisors managed to meet the expectations of the investors and employees.				

<table>
<tr><td rowspan="2">Assessed items</td><td colspan="3">Current Operation (Note 1)</td><td rowspan="2">Shortcomings in the Ethical Corporate Management Best Practice Principles of TWSE/TPEx-Listed Companies, and the reasons for shortcomings</td></tr>
<tr><td>Yes</td><td>No</td><td>Summary</td></tr>
<tr><td colspan="5">6. Any important information to better understand the company’s implementation of ethical corporate management: (for example, any review or amendment to best practices for ethical corporate management of the company): None.</td></tr>
</table>

Note 1: Regardless of whether the operation item is checked "yes" or "no", the company shall provide an appropriate explanation.

(7) If the company has set best practices for corporate governance and other relevant bylaws, the means to search for these bylaws shall be disclosed: None.

(8) Other important information that can strengthen the understanding of the Company’s corporate governance practices: None.

(9) The execution of internal control system should disclose the following items

(1) Statement of Internal Controls

United Orthopedic Corporation
Statement of Internal Control System

Date: March 7, 2017

As per the results from its self-evaluation, the Company makes the following statement pertaining to its internal control system in 2016:

1. The Company reiterates that the establishment, implementation and conservation of the internal control system are the responsibilities of the Board of Directors and the managers of the Company. The Company has built such a robust system. Its goals are to provide reasonable assurance on target achievement (including profit, performance and guaranteeing the safety of assets, etc.), reliability of the information in the financial report, and compliance with relevant laws and regulations.
2. The internal control system has inherent constraints, and no matter how comprehensive its design may be, an effective internal control system can only provide reasonable assurance to achieve the aforementioned objectives. Moreover, the effectiveness of the internal control system may suffer from changes in the environment and under different situations. Nevertheless, the Company's internal control system has self-monitoring mechanisms, and the Company takes immediate remedial measures in response to any identified deficiencies.
3. The Company assesses the effectiveness of the internal control system's design and practices through its effectiveness, as stated in the "Protocols and Measures for the Establishment of Internal Control System in Publicly Listed Companies" (hereinafter referred to as "the Protocols"). The criteria adopted by the Protocols are divided into 5 components in accordance with the procedures of management control: (1) Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; and (5) Monitoring Activities. Each constituent element includes a number of categories. The criteria adopted by the Regulations identify five key components of managerial internal control: (1) Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; and (5) Monitoring Activities. Each constituent element includes a number of categories. Please refer to "Protocols" for the aforementioned categories.
4. The Company has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation, the Company believes that, as of December 31, 2016, it has maintained, in all material respects, an effective internal control system (including the supervision and management of its subsidiaries), to provide reasonable assurance of its operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable regulations.
6. This Statement will become an integral part of the Annual Report and the Prospectus of the Company. Any false statement, concealment, or any other illegal input in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Act. If the aforementioned content contains illegal matters such as fraudulent or hidden information, the Company will be breaching Articles 23, 32, 171, and 174 of the Securities and Exchange Act and will face legal consequences.
7. This statement has been approved by the Company's Board of Directors on March 7, 2017, and out of the 6 Board members in attendance, none had objected to it and all consented to the content expressed in this statement.

United Orthopedic Corporation

Chairman: Lin, Yan-Shen

General Manager: Lin, Yan-Shen

(2) The companies that delegate the responsibility of reviewing the internal system to accountants shall disclose the CPA’s auditing report: none

(10) Since the past fiscal year until the date of publication of the Annual Report, explain the circumstances in which the Company and its personnel have been punished by law, the disincentive measures the Company has followed for its personnel for breaching the internal control system, and any material deficiencies and revisions: None.

(11) Significant resolutions made in/at the Shareholders' Meeting and the Board of Directors in the past fiscal year up to the date of publication of this Annual Report

(1) Shareholders' meeting

Date	Material resolution on the content of the meeting
2016.06.22	1. Passed the case of 2015 operating report and financial statement 2. Passed the case of 2015 profit distribution Results of implementation: The ex-dividend base date and issuance date were determined to be July 07, 2016 and Aug 12, 2016, respectively, on the Board of Directors' meeting on June 22, 2016. 3. Passed the case to amend the articles of association of the Company. Results of implementation: The registration of amendment has been completed on June 30, 2016.

(2) Board of Directors

Appointment	Significant Resolutions at the Meeting
2016.01.26	1. The base date for increase in capital owing to conversion of the convertible bonds to stocks extended from Nov. 2015 to Dec. 2015 2. Passed the resolution for distribution of 2015 managerial officers' new year bonus
2016.03.23	1. Passed the amendment on a portion of the articles of association of the Company 2. Passed the resolution for the distribution of 2015 employees, Directors, and Supervisors' remuneration 3. Passed resolution for remuneration adjustment case of the company's managerial officer case 4. Passed the resolution for 2015 financial statements and operating reports of the company 5. Passed the resolution for internal control system statement 6. Passed the resolution for the distribution of 2015 profit of the company 7. Passed the resolution for convening of 2016 shareholders' meeting 8. Passed the shareholders' proposal right brought up during 2016 shareholders' meeting
2016.05.04	1. Passed the resolution for company's reorganization and manager appointment case 2. Passed the resolution for the company's proposal to establish European sales operations office
2016.06.22	1. Passed the resolution for the determination of base date for 2015 cash dividend distribution 2. Passed the resolution for the 2015 Directors and Supervisors, and employees bonus distribution case 3. Passed resolution for remuneration adjustment of the company's managerial officer case 4. Passed the resolution for the adjustment of investment on the European sales operations office case 5. Passed the resolution for the adjustment on the company's endorsements and guarantees to the Group’s subsidiaries of subsidiary companies and affiliated companies
2016.08.02	1. Passed the resolution for the company's proposal to establish Japan sales operations office 2. Passed the resolution for the proposal of purchasing office at 12F, No.82, Cheng-Kung Rd, Yunghe Dist
2016.09.20	1. Passed the resolution for the company's reorganization and manager appointment case 2. Passed the resolution to appoint a new financial manager for the company 3. Passed the resolution for the company's proposal to sign the letter of intent to purchase the equities of A-Spine Asia Co., Ltd. 4. Passed the resolution for the company's proposal to provide loans to the subsidiary company in Switzerland
2016.11.01	1. Passed the resolution for the company's resolution on the independence of the CPA 2. Passed the resolution for setting procedures on providing loans to others for the subsidiary of a subsidiary company in Switzerland and the proposal to provide loans to the subsidiary company in France 3. Passed the resolution authorizing Shinva Health Industry to sell the shares of Shiva United

	Orthopedic Corporation prematurely
2016.12.26	1. Passed the resolution for the 2017 auditing plan 2. Passed the resolution for the company's proposal to provide loans to companies that are re-invested by the group 3. Passed the resolution for the company's endorsements and guarantees to subsidiaries of subsidiary companies
2017.03.07	1. Passed the resolution for the distribution of 2016 remuneration to employees, Directors, and Supervisors 2. Passed the resolution for the remuneration adjustment case of the company's managerial officer 3. Passed the resolution for 2016 financial statements and operating reports of the company 4. Passed the resolution for internal control system statement 5. Passed the resolution for the distribution of2016 profits of the company 6. Passed the resolution to re-elect the Directors and Supervisors during the shareholders' meeting 7. Passed the resolution at the shareholders' meeting to terminate the non-competing clause of the newly appointed Directors of the company 8. Passed the shareholders' proposal rights in the 2017 shareholders' meeting 9. Passed the resolution to convene the 2017 shareholders' meeting 10. Passed the resolution for the company's proposal to purchase the equities of A-Spine Asia Co., Ltd.

(12) Any dissenting opinion on record or stated in a written statement made by Directors or Supervisors on key resolutions at the Directors' Meeting in the past year up to the publication date of this report: None.

(13) In the past fiscal year and as of the date of publication of the Annual Report, a summary of the resignations and dismissals of the Company personnel:

April 30, 2017

Title	Name	Date of assumption of duty	Date of dismissal	Reasons for resignation or dismissal
Director, Research and Developing Center	Liau, Jiann-Jong	2008.02.15	2016.06.30	Internal organization of the company Promoted as Deputy General Manager
Director, Management Center	Peng,Yu-Hsin	2005.11.01	2016.09.30	Internal organization of the company Promoted as Deputy General Manager

Note: The relevant personnel in this context refers to the Chairman, General Manager, Accounting Supervisor, Finance Supervisor, Internal Audit Supervisor and R&D Supervisor.

5. Information on CPA professional fees

(1) The company may disclose the professional charges of accountants by disclosing it in range or as a fixed sum. The following items shall be disclosed if one of the following have occurred:

Range of professional charges by the CPA

Accounting firm	Name of the accountants		Auditing period	Remarks
PwC Taiwan	Chang, Chih-Ming	Huang, Chien-Che	20160101-20161231	None

Note: Where this Company replaces the CPA or accounting firm, the auditing periods of the former and successor CPA or firm shall be annotated separately. The reason for the replacement will be provided in the Notes section accordingly.

Unit: NT$1,000

Fee Bracket \ Category of Fees		Audit Fees	Non-Audit Fees	Total
1	Less than 2,000 thousand NT$			
2	2,000 thousand NT$(included) ~ 4,000 thousand NT$	2,585	0	2,585
3	4,000 thousand NT$(included) ~ 6,000 thousand NT$			

4	6,000 thousand NT$(included) ~ 8,000 thousand NT$			
5	8,000 thousand NT$(included) ~ 10,000 thousand NT$			
6	10,000 thousand NT$(included) or above			

(1) When the non-audit fees paid to the Certified Public Accountants, their firm, and their affiliated companies accounts for 25% or more of the audit fees, the amount of audit fees and non-audit fees and the content of non-audit service provided must be disclosed.

Information on CPA Professional Fees and Replacement of Certified

Unit: NT$1,000

<table>
<tr><th rowspan="2">Accounting firm</th><th rowspan="2">Name of the accountants</th><th rowspan="2">Audit Fees</th><th colspan="5">Non-Audit Fees</th><th rowspan="2">Time of Audit</th><th rowspan="2">Remarks</th></tr>
<tr><th>System design</th><th>Business registration</th><th>Human resource</th><th>Others (Note 2)</th><th>Subtotal</th></tr>
<tr><td rowspan="2">PwC Taiwan</td><td>Chang, Chih-Ming</td><td rowspan="2">2,585</td><td rowspan="2">0</td><td rowspan="2">0</td><td rowspan="2">0</td><td rowspan="2">0</td><td rowspan="2">0</td><td>20160101</td><td rowspan="2">None</td></tr>
<tr><td>Huang, Chien-Che</td><td>20161231</td></tr>
</table>

Note 1: <u>When the Company replaces the CPA or the accounting firm, the auditing periods of the former and successor CPA or firm shall be annotated separately citing the reason for the replacement.</u> The accounting and non-accounting fees paid to the former and successor CPA or firm shall also be shown.

Note 2: Please list fees for non-audit services separately and provide explanation in the "remark column" if fees for "others" exceeds 25% of the total of the fees for non-audit services.

2. When the company has changed the accounting firm, and in that particular fiscal year, if the audit fees paid was less than that of the fiscal year before that, the company must disclose the decreased amount and the reason for it: Not applicable.

3. When the audit fees decreases by 15% or more than that of the last fiscal year, the company must disclose the decreased amount, ratio, and reason: Not applicable.

(2) The audit fees mentioned above is the fees paid to the accountant for services of financial report auditing, verification, review, financial forecast auditing, and tax visa.

6. Information on replacement of certified public accountants:

(1) Information on the previous CPA

<table>
<tr><td>Date of Replacement</td><td colspan="3">2015/04/24</td></tr>
<tr><td>Reason for replacement and explanation</td><td colspan="3">Due to the internal CPA's rearrangement at PwC Taiwan, the Board of Directors has delegated the power to publish the financial statement to Chang, Chih-Ming, CPA、Huang, Chien-Che, CPA from PwC.</td></tr>
<tr><td rowspan="3">Has the authorizing party or the accountant terminated or rejected the authorization?</td><td>Contracting Parties
Situation</td><td>CPA</td><td>The authorizing party</td></tr>
<tr><td>Voluntarily terminated the authorization</td><td>✓</td><td></td></tr>
<tr><td>Reject the (continuing) authorization</td><td></td><td></td></tr>
<tr><td>The reasons cited in the signed and issued audit reports which were not "no reservations" in the last two years</td><td colspan="3">The opinions are unqualified in both 2015 and 2016</td></tr>
<tr><td rowspan="6">Different opinions from the issuer</td><td rowspan="4">Yes</td><td></td><td>Accounting principles or practices</td></tr>
<tr><td></td><td>Disclosure of financial report</td></tr>
<tr><td></td><td>Scope or procedure of auditing</td></tr>
<tr><td></td><td>Others</td></tr>
<tr><td>None</td><td colspan="2">✓</td></tr>
<tr><td colspan="3">Explanation: Not Applicable</td></tr>
</table>

Other disclosing items (paragraph 6-1-4 to 6-1-7 of article 10 of the principle shall be disclosed)	None

(2)About the successor CPA

Name of the accounting firm	PwC Taiwan
Name of the accountants	Chang, Chih-Ming, CPA, Huang, Chien-Che, CPA
Date of appointment	2015/04/24
The accounting method of particular transactions before appointment or accounting principle, and the consulting matters and their results for the possible opinions signed and issued in the financial report	None
The succeeding CPA's different opinions from the opinions of the previous CPA, expressed in writing.	None

(3)The former CPA's reply to paragraphs 6-1 and 6-2-3, Article 10 of the principle: Not applicable.

7. Has the Company's Chairman, General Manager, or any Managerial Officer in charge of finance or accounting matters held a position at its CPA's accounting firm or at an affiliated enterprise in the past year: No.

8. Equity transfer or changes to equity pledge of directors, supervisors, managerial officers, or shareholders holding more than 10% of company shares in the past year to the publication date of this report

(1) Change in the equities of the Directors, Supervisors, Managers and major shareholders

Date: April 22, 2017 (book closure date); Unit: Share

Title	Name	2016		Up to April 21, 2017		Remark
		Addition (reduction) of shares held	Addition (reduction) of shares pledged	Addition (reduction) of shares held	Addition (reduction) of shares pledged	
Chairman	Lin, Yan-Shen	0	0	0	0	
Director	Lin, Chun-Sheng	0	0	0	0	
Director	Hau, Hai-Yen	(42,000)	0	0	0	
Director	Ng Chor Wah Patrick	300,000	0	0	0	
Director	Chi-Yi Investment Co. Ltd.	0	0	0	0	
Independent Director	Wang, Yueh-Cheng	0	0	0	0	
Independent Director	Lee, Chun-hsien	0	0	0	0	
Supervisor	Wong, Chi-Yin	60,000	0	0	0	
Supervisor	Wang, Ching-Hsiang	0	0	0	0	
Supervisor	Chen, Li-Ju	0	0	0	0	
Vice-President	Liau, Jiann-Jong	0	0	0	0	
Vice-President	Peng,Yu-Hsin	0	0	0	0	

Director, Operating Center	Chou, Chin-Jung	0	0	0	0	
Director, Research and Developing Center	Ho, Fang-Yuan	0	0	0	0	
Director, Department of Finance and Accounting	Teng, Yuan-Chang	0	0	0	0	

Note 1: Shareholders who hold more than 10% of the company's shares shall be considered as major shareholders and are listed separately.

(2) Stock transfer information: The counterparty of stock transfer who is also an interested person in the past year as of April 30, 2017: None.

(3) Stock-pledging information: The counterparty of stock pledging who is also an interested person in the past year as of April 30, 2017: None.

9. Information on the top 10 holders of the Company's shares who are identified as related parties, spouse or relative within second-degree of kinship

Name (Note 1)	Shares held personally		Shares held under spouse or minor children's names		Shares held in others' names		The interested party refers to relatives such as spouse, second tier relatives defined in No. 6 of financial accounting principle. Their titles, names, and relationship. (Note 3)		Remark
	Number of Shares	Percentage	Number of Shares	Percentage	Number of Shares	Percentage	Name (or individual)	Relationship	
Lin, Yan-Shen	2,150,000	3.00%	468,000	0.65%	0	0%	Lin, Chun-Sheng	Brother	
Lin, Chun-Sheng	1,758,629	2.45%	0	0%	0	0%	Lin, Yan-Shen	Brother	
Lu, Wen Ye	1,774,000	2.47%	228,215	0.32%	0	0%	None	None	
New labor pension fund	1,398,000	1.95%	0	0%	0	0%	None	None	
Labor insurance fund	1,393,000	1.94%	0	0%	0	0%	None	None	
Investor account of Wu Chuhua commissioned to manage by E. Sun Bank	1,180,076	1.64%	0	0%	0	0%	None	None	
Chi-Yi Investment Co. Ltd.	1,029,312	1.43%	0	0%	0	0%	None	None	
Chi-Yi Investment Co., Ltd. Representative: Li Qifang	0	0%	0	0%	0	0%	None	None	
Wong, Chi-Yin	758,993	1.06%	0	0%	0	0%	None	None	
Yu,Tzai-Chiu	722,914	1.01%	171,822	0.24%	0	0%	None	None	
National Pension Insurance Fund	680,000	0.95%	0	0%	0	0%	None	None	

Note 1: Please separately identify the names of the corporate shareholders and their respective representatives under the category of substantial shareholders.

Note 2: The calculation of shareholding ratio should separately indicate percentage of shares held under the person's own identity, under spouse, minor children, and others' identities.
Note 3: The relationship among the aforementioned shareholders, including corporate and non-corporate shareholders, should be disclosed using the financial standard of the Company.

10. Information on the number of shares that are held by the Company, any of the Company's directors, supervisors and executive officers or a company directly or indirectly controlled on the very same re-invested and consolidated percentage of shareholding

31 December 2016
Unit: shares

Re-investments in other companies (Note 1)	The Company's investments		Investments of Directors, Supervisors, Managers in directly or indirectly controlled businesses		Combined investments	
	Number of Shares	Shareholding percentage (%)	Number of Shares	Shareholding percentage (%)	Number of Shares	Shareholding percentage (%)
United Medical (B.V.I.) Co.	11,400	100	0	0	11,400	100
Lemax Co., Ltd	0	0	11,400	100	11,400	100
UOC America Holding Corporation	4,500 (Note 2)	100	0	0	4,500	100
UOC USA, INC.	0	0	900 (Note 3)	100	900	100
UOC Europe Holding SA	1,500 (Note 4)	75			1,500	75
United Orthopedic Corporation (Suisse) SA			200 (Note 5)	100	200	100
United Orthopedic Corporation (France)			200 (Note 6)	100	200	100
United Biomech Japan	765 (Note 7)	51			765	51

Note 1: The Company has adopted the equity method for its investments
Note 2: The face value of each share is USD 1,000
Note 3: The face value of each share is USD 5,000
Note 4: The face value of each share is CHF 1,000
Note 5: The face value of each share is CHF 1,000
Note 6: The face value of each share is EUR 1,000
Note 7: The face value of each share is JPY 50,000

IV. Funding Status

1. Capital and shares

(1) Source of Share Capital

Month and Year	Issued Price	Authorized Capital		Paid-in Capital		Remark		
		Number of Shares	Amount	Number of Shares	Amount	Issued Shares	Capital Increased by Assets Other than Cash	Others
1993.02	10	11,000,000	110,000,000	2,750,000	27,500,000	Initial capital 25,000,000	Technical stocks 2,500,000	--
1994.08	10	11,225,000	112,250,000	11,225,000	112,250,000	Capital injection 77,250,000	technical stocks 7,500,000	(83) Yuan Jing No. 12643
1997.03	10	11,225,000	112,250,000	5,612,500	56,125,000	Capital reduction to make up for losses (56,125,000)	None	(86) Yuan Jing No. 05947
1997.03	15	11,612,500	116,125,000	11,612,500	116,125,000	Capital injection 53,630,000	Using bonds as stocks 6,370,000	(86) Yuan Jing No. 05947
1998.02	10	18,612,500	186,125,000	18,612,500	186,125,000	Capital injection 59,980,000	Using bonds as stocks	--

							10,020,000	
1998.12	20	30,000,000	300,000,000	22,612,500	226,125,000	Capital injection 40,000,000	None	(87) Yuan Tuo No. 029827
2004.09	13	30,000,000	300,000,000	25,462,500	254,625,000	Capital injection 28,500,000	None	Financial Supervisory Securities No. 0930136711
2006.08	11.50	40,000,000	400,000,000	33,962,500	339,625,000	Capital injection 85,000,000	None	Financial Supervisory Securities No. 0950111098
2007.10	45	60,000,000	600,000,000	38,562,500	385,625,000	Capital injection 46,000,000	None	Financial Supervisory Securities No. 0960042265
2008.12	9.60	60,000,000	600,000,000	42,362,500	423,625,000	Private cash capital increase 38,000,000	None	--
2009.06	20.60	60,000,000	600,000,000	46,362,500	463,625,000	Private cash capital increase 40,000,000	None	--
2012.04 2012.08	-	60,000,000	600,000,000	46,362,500	463,625,000	Supplemental public issuance for private common stocks 38,000,000/ 40,000,000	None	Financial Supervisory Securities Issuance No. 1010012282/ Financial Supervisory Securities Issuance No. 1010037604
2013.01	30	60,000,000	600,000,000	53,362,500	533,625,000	Capital injection 70,000,000	None	Financial Supervisory Securities Issuance No. 1010057730
2014.12	40.25	60,000,000	600,000,000	55,976,119	559,761,190	Unsecured convertible bonds 26,136,190	None	Financial Supervisory Securities Issuance No. 10100577301
2015.7	40.25	60,000,000	600,000,000	56,202,200	562,022,000	Unsecured convertible bonds 2,260,810	None	Financial Supervisory Securities Issuance No. 10100577301
2015.7	-	60,000,000	600,000,000	56,774,200	567,742,000	Effects of potentially dilutive shares— new restricted employee shares 5,720,000	None	Financial Supervisory Securities Issuance No. 1040025385
2015.11	39.3	100,000,000	1,000,000,000	58,412,868	584,128,680	Unsecured convertible bonds 16,386,680	None	Financial Supervisory Securities Issuance No. 10100577301
2015.11	46	100,000,000	1,000,000,000	71,212,868	712,128,680	Capital injection 128,000,000	None	Financial Supervisory Securities Issuance No. 1040035809
2015.12	-	100,000,000	1,000,000,000	71,204,868	712,048,680	Cancellation of	None	Financial

						new restricted employee shares (80,000)		Supervisory Securities Issuance No. 1040025385
2016.2	39.3	100,000,000	1,000,000,000	71,746,847	717,468,470	Unsecured convertible bonds 5,419,790	None	Financial Supervisory Securities Issuance No. 10100577301

Type of Share	Authorized Capital			Remark
	Outstanding Shares (Note)	Unissued Shares	Total	
Common stock	71,746,847	28,253,153	100,000,000	Listed stocks

Overall information with regards to reporting system: Not applicable.

(2) Shareholder Structure

Shareholder Structure	Government agencies	Financial institutions	Other juristic persons	Foreign institutions and foreign persons	Natural persons	Total
Number of People	0	0	72	39	18,072	18,183
Shares Held	0	0	10,493,104	3,651,573	57,602,170	71,746,847
Holding percentage (%)	0%	0%	14.63%	5.09%	80.28%	100.00%

(3) Distribution of equities (Face value of each share is 10)

1. Common shares

Base date: April 22, 2017

Shareholder Ownership (Unit: share)	Number of Shareholders	Shares Held	Shareholding percentage (%)
1-999	9,812	306,514	0.43%
1,000–5,000	6,648	13,153,745	18.33%
5,001–10,000	846	6,709,769	9.35%
10,001–15,000	302	3,875,367	5.40%
15,001–20,000	152	2,790,473	3.89%
20,001–30,000	145	3,633,170	5.06%
30,001–40,000	64	2,285,786	3.19%
40,001–50,000	36	1,646,415	2.29%
50,001–100,000	92	6,425,014	8.96%
100,001–200,000	41	5,787,675	8.07%
200,001–400,000	25	6,883,355	9.59%
400,001–600,000	7	3,465,465	4.83%
600,001–800,000	6	4,101,082	5.72%
800,001–1,000,000	0	0	0.00%
More than 1,000,001	7	10,683,017	14.89%
Total	18,183	71,746,847	100.00%

2. Preferred share: Not applicable.

(4) List of Major Shareholders

Name of Substantial Shareholders	Shares Held	Shareholding percentage (%)
Lin, Yan-Shen	2,150,000	3.00%
Lin, Chun-Sheng	1,758,629	2.45%
Lu, Wen Ye	1,774,000	2.47%
New Labor Pension Fund	1,398,000	1.95%
Labor Insurance Fund	1,393,000	1.94%

E. Sun Bank (was commissioned to manage the investor account of Wu Chuhua)	1,180,076	1.64%
Chi-Yi Investment Co. Ltd.	1,029,312	1.43%
Wong, Chi-Yin	758,993	1.06%
Yu,Tzai-Chiu	722,914	1.01%
National Pension Insurance Fund	680,000	0.95%

(5) Market Price, Net Worth, Earnings, and Dividends in the Past 2 Years

Year Item			2015	2016	As of March 31 of the current year (Note 8)
Market value of each share (Note 1)	Highest		87.20	92.50	69.10
	Lowest		43.80	57.00	60.10
	Average		68.69	74.82	65.40
The Net Asset Value of Each Share (Note 2)	Before distribution		30.46	25.33	24.81
	After distribution		28.49	Resolution Pending for shareholder's meeting	--
Earnings per Share	Weighted Average Shares		58,210,116	71,116,210	71,182,847
	Earnings per share (Note 3)		2.30	2.06	(0.05)
Dividends per Share	Cash Dividend		1.60011334	Resolution Pending for shareholder's meeting	--
	Stock Dividends	Dividends from Retained Earnings	0	Resolution Pending for shareholder's meeting	--
		Capital Surplus Distribution	0	Resolution Pending for shareholder's meeting	--
	Accumulated dividend not paid out (note 4)		0	0	--
Return on Investment	P/E Ratio (Note 5)		29.87	36.32	--
	P/E Ratio (Note 6)		42.93	Resolution Pending for shareholder's meeting	--
	Cash dividend yield (Note 7)		2.33%	Resolution Pending for shareholder's meeting	--

*When an Enterprise increases the capital out of earnings or capital reserves, it shall provide information on market price and cash dividends per share adjusted retrospectively for increased number of shares.

Note 1: The highest and the lowest market value of common shares in each year, and the average market value for each year based on transaction value and quantity.

Note 2: Please fill the info based on the shares issued by year-end and share allocation resolution at the shareholders' meeting in the subsequent year.

Note 3: If any retrospective adjustments are needed due to stock grants, earnings per share before and after the adjustment should be shown.

Note 4: In cases where any conditions are attached to issuing equity securities that allow for unpaid out dividend for the year to be accumulated in subsequent years in which there is profit, then the Company should separately disclose the accumulated unpaid dividend up to that year.

Note 5: Price-Earnings ratio = average price per share for that year/Earnings per share.

Note 6: Price-Dividend ratio = average price per share for that year/cash dividend per share.

Note 7: Yield on cash dividend = cash dividend per share/average price per share for that year.

Note 8: For net worth per share and net earnings per share, the data from the latest quarter verified by a CPA until the date of the publication of the Annual Report should be used. For all other columns, the Company should include the year's information until the date of publication of the Annual Report.

(6) Dividend Policy and Implementation:

(1) Company Dividend Policy and Implementation:

In case the company makes profit in the current year (Profits refer to income before tax and before bonus distribution to the employees, Directors, and Supervisor), 12% shall be allocated as the employees' bonus and no more than 3% as the Directors and Supervisors' bonus. However, when the company has accumulated losses (including adjustment on non-distributed earnings), the loss should offset first from profits.

The employees' bonus and the Directors' and Supervisors' bonus mentioned above shall be distributed only through cash. It shall be determined by the Board of Directors and reported at the shareholders' meeting.

In case there are profits after tax at the closing account of the current year, the company shall first make up the accumulated deficit (including adjustment on non-distributed earnings) and retain 10% as statutory surplus reserve in accordance with the law; however, when the statutory surplus reserve exceeds the registered capital of the company, it is not subject to this limitation. After the statutory surplus reserve has been retained or rotated in accordance with regulations or requests made by competent agencies, 50% to 100% of the earning, along with undistributed earnings for the previous year shall be distributed as shareholders' dividend, of which, 50% of the shareholders' dividend that is distributed in the current year shall be in cash form.

(2) The proposal of divided distribution during the current shareholders' meeting: The Company proposed to distribute 1.38757647 NT$for every share for the 2016 earning distribution. The proposal has been approved by the Board of Directors on March 7, 2017, and will be determined at the shareholders' meeting on June 20, 2017 in accordance with relevant regulations.

(3) Explanations for anticipated changes in dividend policy: None.

(7) Impact on the company's business performance and earnings per share (EPS) offered shares allotment proposed at this shareholder's meeting: None.

(8) Compensation for employees, directors, and supervisors

(1) The percentage or range of compensation for employees, directors, and supervisors, as set forth in the company's Articles of Incorporation is:

Article 20 of the Articles of Association: In case the company makes a profit in the current year (profit refers to income before tax and before bonus distribution to the employees, Directors, and Supervisors), 12% of it shall be allocated towards employee bonus and no more than 3% as bonus to the Directors and Supervisors. However, when the company has accumulated losses (including adjustment on non-distributed earnings), the amount should be offset first.

The bonus for employees, the Directors and Supervisors mentioned above shall be distributed only through cash. It will be determined by the Board of Directors and reported to the shareholders' meeting.

(2) The basis for estimating the amount of employee, director, and supervisor compensation, to calculate the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period.

The basis for the estimated bonus to employees, Directors, and Supervisors: Estimations are made based on the profits of 2016 (profits refer to income before tax and before bonus distribution to the employees, Directors, and Supervisors) and in accordance with Article 20 of the Articles of Association.

The account handling procedure in case there are discrepancies between the estimation bases of the employees' bonus distributed through stocks and the actual distributed amount: list it as profit and loss of 2017.

The difference, reasons, and handling method of the discrepancies between the estimation basis of the 2016 employees' bonus and the Directors' and Supervisors' bonuses distributed through stocks and the actual distributed amount

Unit: NT$

	Estimated amount	Actual distributed amount	Variance	Reasons for variance and its handling method
Employee remuneration	23,060,803	23,060,803	0	The discrepancies between the estimation basis of the 2016 employees' bonus and the Directors' and Supervisors' bonuses distributed through stocks and the actual distributed amount are mainly due to difference in estimation. The difference will be shown in the profit and loss account of 2017
Directors and Supervisors' bonuses	5,694,632	5,765,201	(70,569)	
Total	28,755,435	28,826,004	(70,569)	

Note: Employees' bonus and Directors and Supervisors' bonuses are distributed in cash

(3) The Board of Directors have passed the proposal to distribute employees' bonuses:

1. The Board of Directors proposed to distribute Employees' bonus and Directors and Supervisors' bonuses through cash: The Board of Directors has determined to distribute 23,061 thousand NT$as the employees' bonuses, and 5,765 thousand NT$as the Directors' and Supervisors' bonuses from the earnings of 2016.
2. The proposal to distribute Employees' bonuses in the form of stocks and its ratio to the net income of the Company and all companies in the consolidated financial statements and the sum of employees' bonuses: The Company did not distribute stock dividends to employees in 2016.

(4) Actual distribution of compensations for employees, directors, and supervisors (including the number, sum, and price of shares distributed), and where there were discrepancies with the recognized compensations for employees, directors, and supervisors, the sum, cause, and treatment of the discrepancy be described:
The employees' bonuses and Directors and Supervisors' bonuses that were distributed by the company in the previous year (2015) were not different than the ones proposal passed by the Board of Directors.

Unit: NT$

Distribution	Distributed amount determined at the shareholders' meeting and by the Board of Directors	Actual amount distributed	Difference
Employee remuneration	23,155,162	23,155,162	-
Directors and Supervisors' bonuses	4,823,992	4,823,992	-
Total	27,979,154	27,979,154	-

(9) Repurchase by the company of its own shares: None.

2. Issuance of corporate bonds:

(1) Issuance of corporate bond

The company's first unsecured corporate bonds in the country were issued through a notice the Financial Supervisory Commission on January 11, 2013: Financial Supervisory Securities Issuance No. 10100577301. It has become effective from January 11, 2013 and the total amount issued was 200 million NT$. The trading has begun at the operation site of the securities firm on February 6, 2013 based on the notice sent out by Taipei Exchange on February 4, 2013: Taipei Exchange Bond No. 10200020561.

Type of corporate bond	First issuance of unsecured convertible corporate bonds in Taiwan
Issuance Date	2013/02/06
Face Value	10,000 NT$
Issuance and Trading place	R.O.C.
Issue Price	Issued at par
Total Amount	200,000 Thousand NT$
Interest rate	Coupon rate 0%
Term	3 years maturity date: Feb 6, 2016
Guarantee agencies	None
Consignee	Taiwan Cooperative Bank Co., Ltd.
Underwriter	Jih Sun Securities Co.,Ltd.
Visa lawyer	Yang,Mei-ling lawyer
Appointed CPA	PwC Taiwan Chang,Chih-Ming, CPA, Yang,Zhi-Hui, CPA

Redemption method		The term is 3 years. Other than converting and redeeming through the conversion method, the bonds may also be redeemed at face value in lump sum at maturity by remittances or checks
The principal that has not been redeemed as of the date of the publishing of the annual report		85,700 thousand NT$
Articles for redemption or early liquidation		Reference issuance and conversion methods
Restrictive Clauses		None
Name of credit rating agency (CRA), rating date, and results of corporate bond ratings		None
Other rights attached	The amount that has been converted into common stocks, offshore depository receipts, and other marketable securities as of the publishing date of the annual report	0
	Issuance and conversion (exchange or options) methods	Refer to issuance and conversion methods
Possible dilution of the equity or impact on the shareholders' equity caused by regulations on the issuance and conversion, exchange, or subscription to stocks		The total amount of convertible corporate bonds issued this time is 200,000 thousand NT$. The impact on the earnings per share of the current shareholders may not be major as the duration of the bond is 3 three years and the timing of each creditor's conversion request is different. . The coupon rate of the corporate bond is 0% and its conversion price is at a premium; therefore, there should be no negative impact on the rights of shareholders
Name of the commissioned custodian of exchangeable investments		N/A

(2) Information on convertible bonds

Types of convertible bonds (Note 1)		First issuance of unsecured convertible corporate bonds in Taiwan	
Year / Item		2016(Note 5)	The current year is cut off as of April 30, 2017 (Note 4)
conversion Market price of corporate bond (Note 2)	Highest	207.00	0
	Lowest	111.65	0
	Average	161.51	0
Conversion price		40.25/39.30	40.25/39.30
Issuance (placement) date and the conversion price on issuance		2013/02/06 40.25 NT$	2013/02/06 40.25 NT$
Methods to fulfill the conversion obligation (Note 3)		Issuance of new shares	Issuance of new shares

Note 1: The number of rows is adjusted according to the actual entries.
Note 2: If the offshore corporate bonds are traded at several locations, they will be listed as per the terms of the respective exchanges.
Note 3: Delivery of issued shares or issuance of new shares.
Note 4: The information of the current year is as of the date of publication.
Note 5: The Company's unsecured convertible bonds have all been converted in 2015 and their purchase and sale have been terminated on January 8, 2016.

3. Issuance of preferred stocks: None

4. Issuance of overseas depositary receipt: None

5. Issuance of employees' stock option certificate and new restricted employee shares:

(1)The employees' stock option certificate will have the following information:

(a) The company's employees' stock option certificates yet to mature shall disclose the current situation of the issuance as of the publish date of the annual report and the impact on the rights of the shareholders. The private employees' stock option certificates shall be highlighted: Not applicable

(b) Names, acquisition, and subscription of managerial officers who have obtained employees' stock option certificates as well as employees who rank among the top 10 in terms of the number of shares obtained via employees' stock option certificates, cumulative to the date of publication of the annual report: Not applicable

(2)New restricted employee shares shall include the following:

(a) The new restricted employee shares that have not fully met the vested conditions as of the publication date of the annual report and its impact on the rights of the shareholders.

New restricted employee shares

May 20, 2016

<table>
<tr><td>Types of New Restricted Employee Shares (Note 1)</td><td>The First Time (Period)
Effect of potentially diluted shares—New restricted employee shares</td></tr>
<tr><td>Effective Date</td><td>July 6, 2015</td></tr>
<tr><td>Issue Date (Note 2)</td><td>July 27, 2015</td></tr>
<tr><td>Number of new restricted employee shares issued</td><td>572,000</td></tr>
<tr><td>Issue price</td><td>0</td></tr>
<tr><td>The ratio of new restricted employee shares issued to the
total number of shares issued</td><td>1.02%</td></tr>
<tr><td>Vested conditions of new restricted employee shares</td><td>(1) Managers who have received the new restricted employee shares approved by the Board of Directors:
1. Employees who are still serving in the company three years after the date of capital base increase.
2. The employees' annual performance assessments are A and above.
3. The company uses 15% consolidated operating income growth and 20% net profit after tax growth, respectively, in each year as the standard value for performance evaluation. The vested share ratio is calculated by the average standard value achieved in three years. The vested share ratio larger than 100% will be counted as 100%. (The consolidated revenue in each year may not be lower than 12% and the net profit after tax may not be lower than 16%).
<table>
<tr><td colspan="2">Assessed items</td><td>Revenue yoy</td><td>Profit after tax yoy</td></tr>
<tr><td colspan="2">Assessment Standard Value</td><td>15%</td><td>20%</td></tr>
<tr><td colspan="2">Lowest Standard Value</td><td>12%</td><td>16%</td></tr>
<tr><td rowspan="3">Assessment year</td><td>2015</td><td>if yoy <12%, then x1 = 0
if yoy >=12%, then x1=yoy/15%</td><td>if yoy <16%, then x2=0
if yoy >=16%, then x2=yoy/20%</td></tr>
<tr><td>2016</td><td>if yoy <12%, then x3 = 0
if yoy >=12%, then x3=yoy/15%</td><td>if yoy <16%, then x4=0
if yoy >=16%, then x4=yoy/20%</td></tr>
<tr><td>2017</td><td>if yoy <12%, then x5= 0
if yoy >=12%, then x5=yoy/15%</td><td>if yoy <16%, then x6=0
if yoy >=16%, then x6=yoy/20%</td></tr>
<tr><td>Vested share ratio (z)</td><td colspan="3">z =Σxi / 6 ,(i=1~6, if z>=100%, it will be counted as 100%)</td></tr>
</table>
Note 1: Vested share ratio is rounded to the second digit.
Note 2: The vested shares are rounded to the integer.
(2) R&D engineers that receive the new restricted employee</td></tr>
</table>

	shares approved by the Board of Directors: Employees who are still serving in the company three years after the date of capital base increase, and the employees' annual performance assessments are A and above. Their vested share ratio is: 100%.
Restriction of Rights on New restricted employee shares	(1) After receiving the new restricted employee shares and before meeting vesting conditions, employees should not sell, pledge, transfer, endow, or dispose of the restricted employee shares by any means. (2) The right to vote on shareholders' meeting: Same as other common stock of the company. (3) The option and right of interest of shareholders: Same as other common stock of the company. (4) The right to participate, propose, speak, vote in shareholders' meeting are all delegated and executed by trust custody institutions in accordance with the contract. (5) The new restricted employee shares will be delivered to trust custody institutions after issue, and the employees may not request the return of new restricted employee shares for any reason before the vested conditions are met.
Custody of new restricted employee shares	All in custody of CTBC Bank Co., Ltd.
The procedures for handling employees who have received the purchasing options or purchased the new shares, but have yet to meet the vested conditions	If the employees violate this contract, labor contract, or working guidelines which result in one first-level demerit or above, or violate the law and found guilty after the employees have received the new restricted employee shares, those shares that the employees have received but have yet to meet the vesting conditions may be considered as not meeting the conditions and the company has the right to recover the shares and write them off in accordance with law. However, the stock and cash dividend received during the period will be given to the employees unconditionally.
New Restricted Employee Shares Recovered or Purchased	8,000
The number of shares which the restricted rights of new restricted employee shares have been lifted	0
The number of shares which the restricted rights of new restricted employee shares have not been lifted	564,000
The ratio of shares which the restricted rights of new restricted employee shares have not been lifted to the total shares that have been issued (%)	0.786%
The impact on shareholders' right	The 572,000 new restricted employee shares that are issued at this time are unconditionally issued. The employees must still be serving the company three years after the date of capital base increase. The current ratio of new restricted employee shares to the total shares issued is 0.786% and it shall not have material impact on the current shareholders' rights.

Note 1: The number of rows is adjusted as per the actual entries.

Note 2: Shares with different issuance dates shall be fulfilled separately.

(3) Names and status of managerial officer and the top ten employees holding new restricted employee shares accumulated as of the publication date of the annual report:

Names and status of managerial officer and the top ten employees holding new restricted employee shares

April 30, 2017

<table>
<tr><th rowspan="2"></th><th rowspan="2">Title (Note 1)</th><th rowspan="2">Name</th><th rowspan="2">Number of new restricted employee shares</th><th rowspan="2">Percentage of the new restricted employee shares to total shares issued</th><th colspan="4">Restricted rights lifted (Note 2)</th><th colspan="4">Restricted rights not lifted (Note 2)</th></tr>
<tr><th>Number of shares with restricted rights</th><th>Listed price</th><th>Listed amount</th><th>Percentage of number of shares with restricted rights to total shares issued</th><th>Number of Shares that the restricted rights have not been lifted</th><th>Issue price</th><th>Listed amount</th><th>The ratio of shares that their restricted rights have not been lifted to the total shares issued</th></tr>
<tr><td rowspan="5">Executive Officers</td><td>General Manager</td><td>Lin, Yan-Shen</td><td rowspan="5">152,000</td><td rowspan="5">0.21%</td><td rowspan="5">0</td><td rowspan="5">10</td><td rowspan="5">0</td><td rowspan="5">0%</td><td rowspan="5">152,000</td><td rowspan="5">10</td><td rowspan="5">1,520,000</td><td rowspan="5">0.21%</td></tr>
<tr><td>Deputy General Manager</td><td>Liau, Jiann-Jong</td></tr>
<tr><td>Deputy General Manager</td><td>Peng, Yu-Hsin</td></tr>
<tr><td>Director, Research and Developing Center</td><td>Ho, Fang-Yuan</td></tr>
<tr><td>Director, Operating Center</td><td>Chou, Chin-Jung</td></tr>
<tr><td rowspan="5">Employee (Note 3)</td><td>Manager, Department of Finance and Accounting</td><td>Pan,Yun-Han</td><td rowspan="5">120,000</td><td rowspan="5">0.17%</td><td rowspan="5">0</td><td rowspan="5">10</td><td rowspan="5">0</td><td rowspan="5">0%</td><td rowspan="5">120,000</td><td rowspan="5">10</td><td rowspan="5">1,200,000</td><td rowspan="5">0.17%</td></tr>
<tr><td>Manager, Department of Information Management</td><td>Kuo Yao-Chung</td></tr>
<tr><td>Manager, Department of Production Management at Hsinchu</td><td>Lin, Shiou-Chuen</td></tr>
<tr><td>Manager, Department of Manufacturing Development</td><td>Lu,Yu-Hen</td></tr>
<tr><td>Manager, Department of Quality Assurance at Hsinchu</td><td>Chen, Chie-Song</td></tr>
</table>

	Manager, Department of Industry Development	Liu, Yu-Liang										
	Auditing Manager, General Manager Office	Liao, Wei-Chang										
	Manager, Department of Administration	Chuang,Ya-Yen										
	Manager, Customer Service	Wang, I-Yung										
	Manager, Department of Production at Hsinchu	Chen,Wei-Ting										

Note1: The name and the title of the managerial officers and employees be disclosed, but the stock options received and purchasing status may be consolidated.
Note 2: The number of rows is adjusted as per the actual entries.
Note 3: The top ten employees who hold the new restricted employee shares refer to employees beside managerial officers.
Note 4: The total number of stocks issued is the number of stocks registered with the Ministry of Economic Affairs.

6. Status of new share issuance in connection with mergers and acquisitions: None.

7. Implementation of capital deployment:

The increase in the capital by NT$588,800 thousand in 2015 is included in the public or private issuance of marketable securities that are yet to be completed or the issuance has been completed but the effect was not significant until the first quarter of 2017. The issuance plan and its relevant information and execution are mentioned below:

(1)The Plan:

1. The competent authority's approval date and the document number: Financial Supervisory Securities No.1040035809 dated September 9, 2015.
2. The total capital needed for this plan: NT$588,800 thousand.
3. Sources of funding: Issued 12,800 thousand shares of common stocks for this capital increase. The face value of each share is NT$10 and the issue price per share is NT$46. The total fund raised was NT$588,800 thousand.
4. Progress in planned activities and fund application:

Unit: NT$1,000

Project plan	Total capital needed	Expected capital utilization schedule						
		2015	2016				2017	
		Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Plant Expansion	179,000	6,550	51,760	38,330	57,495	14,320	10,545	-
Purchase Machinery and Equipment	181,000	-	-	15,900	35,900	54,900	60,560	13,740
Replenishment of working capital	228,800	228,800	-	-	-	-		-
Total	588,800	235,350	51,760	54,230	93,395	69,220	71,105	13,740

5. Changes in plan, reasons for change, and the effectiveness of change: Not applicable.
6. The date on which the information of this plan has been entered into the reporting website identified by the Financial Supervisory Commission: 2014/09/09
7. The benefits that are expected to flow:
   A. The three-phase expansion of Kaohsiung plant and the purchase of machinery and equipment
      There is totally a capital increase of 360,000 thousand NT$for plant expansion and for purchase machinery and equipment. These funds are used to expand production capability of implant products (including hips and knees). It is expected that the three-phase expansion of the Kaohsiung plant will increase the revenue by 2018 and hence

the benefits will accrue from 2018. The production capacity of HIP and KNEE will increase after the expansion and will increase the sales volume also. The increase in the operating net profit after expansion is conservatively estimated based on the average selling price, gross margin, selling expenses and management fees. The expected fund recovery period is 4.462 years. The expected benefits are as follows:

Unit: pieces, NT$1,000

Year	2018	2019	2020	2021	2022
Expected increase in production	216,000	216,000	216,000	216,000	216,000
Expected increase in sales volume	74,650	89,580	107,495	128,995	154,793
Expected increase in sales value	389,148	466,978	560,374	672,448	806,938
Expected promotion fees	142,273	170,727	204,873	245,847	295,017
Expected management fees	52,523	63,028	75,634	90,761	108,913
Expected increase in operating net profit	56,917	68,301	81,961	98,353	118,023

Source: The Company

B. Increase in working capital

The reason for the company to increase the capital is to improve the working capital to meet the needs of working capital requirements for continuous growth in operating income. The capital is increased to avoid operational risks due to increase in debt ratio, or reduction in profitability due to increase in interest expense. Moreover, the company's flow ratio and quick ratio are likely to increase after the plan completion. It will increase the company's solvency and financial scheduling will become more flexible.

Unit: %

Item	2013	2014	2015 (after financing, estimation)
Debt ratio	44.38	41.03	28.16
Long-term capital to property, plant, and equipment ratio	234.76	220.60	328.86
Current ratio	308.91	214.00	303.63
Liquidity ratio	189.29	137.45	234.62
Interest coverage ratio	5.07	13.97	24.75

Note: The table above is calculated based on individual reports in 2013 and 2014

The fundraising of the company is expected to be completed by November 2015. In comparison to borrowing all the funds from the banks, a sum of 4,851 thousand NT$in interest expense is likely to be saved, at the short term interest rate of 2.12%.

(2) Status of implementation:

Unit: NT$1,000

Project Items	Implementation status		Until first quarter, 2017	The reasons for exceeding or falling behind on progress and the improvement plan
Plant Expansion	Expenses	Expected	179,000	Executed in accordance with the actual expansion plan of the plant
		Actual	164,504	
	Implementation in progress	Expected	100.00%	
		Actual	91.90%	
Purchase of Machinery and Equipment	Expenses	Expected	167,260	
		Actual	27,254	
	Implementation in progress	Expected	92.41%	
		Actual	15.06%	
Replenishment of working capital	Expenses	Expected	228,800	
		Actual	228,800	
	Implementation in progress	Expected	100.00%	
		Actual	100.00%	
Total	Expenses	Expected	575,060	
		Actual	420,558	
	Implementation in progress	Expected	97.67%	
		Actual	71.43%	

(3) Benefit Assessment:

A. The three-phase expansion of Kaohsiung plant and purchase of machinery and equipment

The company is executing the plan as per schedule, and the benefit will accrue in 2018.

B. Increase in working capital

The plan to increase capital to improve the working capital has been completed. The financial ratios are as follows. There's a significant increase in the capital, and the company's 2016 operating income, operating margin, and operating profits have increased to 1,352,145 thousand NT$, 761,299 thousand NT$, and 176,661 thousand NT$, respectively. They are all significantly higher than at the same period last year. The benefit of this capital increase needs amplification.

Unit: %

Item	2013	2014	2015
debt ratio	44.38	41.03	24.85
Long-term capital to property, plant, and equipment ratio	234.76	220.60	319.34
Current ratio	308.91	214.00	399.87
Liquidity ratio	189.29	137.45	279.72
Interest coverage ratio	5.07	13.97	24.16

Note: The ratio of the table above is calculated based on the individual reports of 2013, 2014, and 2015.

V. Operational Highlights

1. Business activities

(1) Business Scope:

(1) The business scope of the company

1. Research, develop, produce, manufacture, and sell the following products:

1.1. Artificial orthopedic implants: including artificial joints, artificial bone plate, bone nails, bone needles and so on.

1.2 Orthopedic surgical equipment and its manufacturing equipment.

1.3 Special metal and plastic materials.

2. The import and export and trading business of the products mentioned above.

(2) Proportion of business

Unit: NT$1,000

Product category	2016 Net operating expenses	Ratio
Artificial joints	1,339,049	96.80%
Spine and injury products	33,005	2.39%
Other products	4,675	0.34%
OEM products	6,611	0.47%
Total	1,383,340	100.00%

(3) The main products of the company

1. Artificial hip joint: Artificial hip joint, semi-hip joint, large trochanter joints for fracture, Moorish artificial bones, and artificial hip joint for tumor custom-made for a single patient.
2. Artificial Knee Joint: Artificial knee replacement joint, artificial all knee replacement joint, restricted artificial knee joint, and artificial knee joint for tumor custom-made for a single patient.
3. Spine products: Spinal fixator.
4. Injury and other orthopedic products: Orthopedic fixed nails, bone plate, bone nails, bone needles, bone screws and products as such.
5. OEM products: Orthopedic fixator.

(4) New products (services) planned

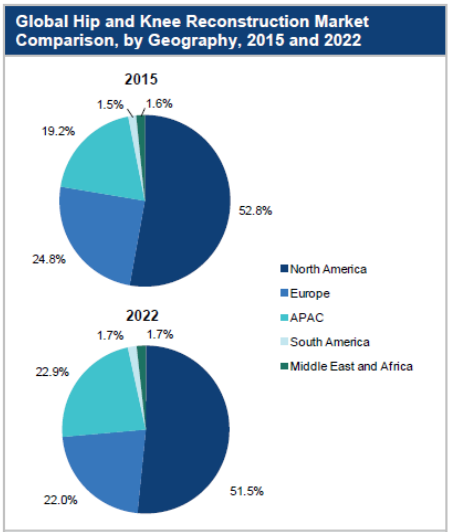
1	Tumor rebuild artificial joints and tools II	2	U2+ Artificial knee joint component system and tool
3	E-poly artificial joint insert and fillings	4	Disposable surgical instruments
5	No collar femoral head	6	Modeled acetabula cage system
7	Short stalk handle and tool	8	3D printed acetabula system and tool
9	Single condyle artificial knee joints and tools	10	Double movement acetabula system and tool
11	Modeled stalk handle and tool	12	Coral stalk handle and tool

(2)Industry Overview:

1. Current state and development of the industry
   According to the reports of Global Data in 2015, the global artificial knee joint has an output value of USD 7.374 billion, and its expected compound growth rate from 2015 to 2022 is 3.2%, and the artificial hip joint has an output value of USD 6.453 billion, and its expected compound growth rate from 2015 to 2022 is 2.4%. United Orthopedic Corporation has a lot of room for growth in the 400 billion NT$market, which is continuously growing.
2. Correlation between upstream, midstream, and downstream sections of the industry
   The company's manufacture of artificial joint can be scaled-- up, mid, and downstream. This means that other than the materials from the upstream, all other manufacturing can be completed in one step. Other than the materials from the upmost stream, the company has good control over cost and the cost and inventory supply chain.
3. Various product development trends
   The development of artificial joints is heading toward more personalized joints, more accurate surgeries, and shorter recovery periods. The strength in research and development accumulated by the company gives it the ability to quickly take on the challenges posed by the market. Launch of new products and new technologies are essential to the growth of the company.
4. Competition
   According to the statistics of Global Data, North America is still the largest market. Therefore, the four largest plants are all in the U.S., and these plants produce about 80% of the output value. The market share of other small plants is also increasing gradually. The development of artificial joints is getting more personalized over the years. The company's product is positioned to compete with world-class plants both in quality and price. Even though the quality and functionality of our products are at the same level as other major plants, our marketing capability and brand awareness are inferior to those major plants. Improving the visibility of the brand to compete with major plants is something we need to work on and catch up in that direction.

Hip and Knee Reconstruction, Key Metrics in the Global Market, 2015 and 2022

Market Forecast	2015	2022
Global Market Value	$13.83bn	$16.80bn
North America Market Value	$7.30bn	$8.66bn
Europe Market Value	$3.43bn	$3.70bn
APAC Market Value	$2.66bn	$3.85bn
South America Market Value	$0.21bn	$0.29bn
Middle East and Africa Market Value	$0.22bn	$0.29bn



Source: GlobalData
Note: Totals may not sum due to rounding.

(3) Overview of technology and R&D:

(1) The ratio of R&D fees to the revenues for the past two years and as of March 31, 2017 is:

Unit: NT$1,000

Year	R&D Spending	On the revenue (%)
2015	151,650	10.89%
2016	161,231	11.66%
As of March 31, 2017	36,206	10.02%

(2) Technologies or products developed successfully

1	The Machining Technology of CoCrMo Alloy for Orthopedic Joint Replacements	2	The Sintering Technology of Porous Coating on CoCrMo Alloy
3	The Mirror Polishing Technology of CoCrMo Alloy	4	The Machining Technology of Titanium Alloy for Orthopedic Joint Replacements
5	The Surface Treatment and hardening Technology of Stainless Surgical Instruments	6	The Diamond Shape Manufacturing Technology for Stem Broach Surface
7	The Robotic Grinding Technology for Femoral Components	8	The Ceramic Liner
9	The Revision Hip Replacement System	10	The Revision Knee Replacement System
11	The Reconstruction Joint Replacements	12	Spinal Implants

	for Oncology		
13	The Precision Forging Technology of Titanium Alloy for Orthopedic Joint Replacements	14	The Precision Forging Technology of CoCrMo Alloy for Orthopedic Joint Replacements
15	The Sintering Technology of Porous Coating on Titanium Alloy	16	The Precision Casting Technology of CoCrMo Alloy for Orthopedic Joint Replacements
17	The Second Generation of Greater Trochanter Fracture Stem	18	The Polished Cemented Stem
19	The second generation of all polyethylene-type acetabula liner	20	The New Knee Surgical Instrument System
21	The Plasma Spray Coating Technology of Titanium and Hydroxyapatite		

(4) Long- and Short-Term Business Development Plans

(1) Short-term development plan:

1. Marketing strategy
   (A) The China market is growing with the effort of Shinva United Orthopedic Corporation and new spinal product line, which will help the growth in China.
   (B) The establishment of European branches will help to increase business in France and Switzerland.
   (C) The establishment of the Japan branches is in the midst of regulatory certifying process and is expected to begin sales in the fourth quarter of 2017.
   (D) The regulatory certifying processes in South America are gradually receiving approvals, which will help to carry out business.
   (E) The increase in business team in domestic market will help improve the quality and intensify services.
2. Production policy and product development direction
   (A) The completion of phase three of new construction at Kaohsiung plant will enable production in the third quarter of 2017, which will improve production capacity.
   (B) Will continue to develop diversified product groups to meet the different needs of patients and doctors.
3. Operation scale and financial cooperation
   (A) Implement target management in the entire company. Systematically recognize the employees' role and their confidence in the development of the company and they also individually.
   (B) Establish a steady mechanism and channel for finance, cash flow, and financing for the future development of the company.

(2) Long-term planning objectives:

1. Marketing strategy
   The Shinva United Orthopedic Corporation that is jointly founded with Shinva Medical Instrument Co., Ltd has been operating smoothly after one year of effort. The plant that produces products for domestic market is also under construction at Zibo, Shandong. The application to become regulated is planned to be submitted this year. The company plans to expand the China market with high-end imported products (products of United Orthopedic Corporation (Taiwan) and the domestic products of Shinva United Orthopedic Corporation). The establishment of European branches will enable the company to provide better service in the European zone. This will significantly help in the long-term development of the European market. The Japan branches have been established to enter this largest market in Asia. There is a necessary step for long-term development of business.
2. Production policy and product development direction
   The construction activity of the third phase of the plant at the Kaohsiung plant is in full swing. The production capabilities will gradually increase the production. The diversity in the product line and the development of innovative products will help the company stand among the peers with world-class plants. The years of R&D experience will enable the company to move towards the design direction of “Me Better”, and to expand in the global market.
3. Operation scale and financial cooperation
   Normal financing channels are already in place and will meet the capital needs of the business development of the company. The Company is committed to properly use the resources and plan the financial strategy to increase the scale of operation.

2. Market and sales overview

(1) Market Analysis

(1) The sales (provided) regions for major products (services)

Unit: NT$1,000

Year Region	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
Taiwan	259,842	23.60%	312,029	22.41%	429,418	31.04%
Asia	505,719	45.94%	568,832	40.85%	446,570	32.28%
America	258,563	23.49%	397,510	28.54%	393,435	28.44%
Europe	69,217	6.29%	104,189	7.48%	100,705	7.28%
Africa	7,447	0.68%	10,013	0.72%	13,212	0.96%
Total	1,100,788	100.00%	1,392,573	100.00%	1,383,340	100.00%

(2) Market share

Product Category	Type	United Orthopedic Corporation	Foreign plants
Artificial hip joints	Self-made	24%	76%
Artificial knee joints	Self-made	21%	79%

Source: From domestic distributors

3. Future market supply and demand and growth

A. Market demand side

Degenerative arthritis is most commonly faced by the elderly population. The use of artificial joints is a necessary defense line when all other conservative treatments fail. Most of the elders are able to go back to their normal lives after they have been fitted with artificial joints. Aging population is a definite trend. There will be momentum for growth in artificial joints, and so does the market.

B. Market supply side

The market is still controlled by a few major plants. The four major plants in the U.S. produce 80% of the industrial output by value while the rest is divided among other smaller plants. Even so, the market share of small plants has been growing in the recent years. Moreover, the regulatory threshold of entering this industry has been on increase and would thus make it harder for new plants to enter the market. Even though a couple of Chinese plants have received certification for operations in Taiwan, there's still a demand for our products in the international market.

C. Market growth

The current output value of the global artificial joint industry is around USD16 billion and the annual growth rate is around 3~4%. However, as the global population ages, the UN forecast shows that elders over 60 years will account for 21% of the global population by 2050. The ratio of elders in the economically developed countries will increase from 20% to 33%. This aging trend will speed up the growth of the market for artificial joints even more. Moreover, with the improvement in economic prosperity for the people in developing countries, more people will be able to afford replacement surgery and increase market for artificial joints. Therefore, this industry will continue to flourish in the next 20- 30 years.

(4) Positive and negative factors affecting competitive niches and long-term development, as well as response strategies

A. Competitive Niches

1. Ours is the only plant that has integrated the up, mid, and down streams of artificial manufacturing around the globe. We are in control of the core of the technologies to respond to market changes.
2. Steady development along with increased regulations, and 20 years of accumulated R&D experience helps the company stand firm among global peers. The company's R&D and innovation are also heading towards the "Me Better" direction.

B. Favorable factors

One-stop production and sales accelerate the time to market the products—shorten the production cycle, effectively control the inventory level, and reduce costs. More customers have given confidence to the company through marketing activities and product clinical efficacy, which have created brand awareness for the company in the industry.

C. Unfavorable factors

The world's four major plants still lead the overall market, market development, channels, service, visibility and awareness. The scale of the company's operations is still relatively small in comparison with these four major plants.

D. Unfavorable Factors and Countermeasures

Innovation on product line, establishment of sales channels, brand reputation and quality market service are all essential for market penetration. Increase in the number of clinical research papers in significant international and domestic journals will enhance the user confidence. Follow a flexible marketing, pricing strategy, attract stronger strategic partners in accordance with the market characteristics of each nation and region to gain a firm foothold in each market and expand on that.

(2) Usage and manufacturing processes for the Company's main products

(1) Major uses of the major products:

Main products	Important use
Artificial hip joints	Replace artificial joints for patients suffering from rheumatic or degenerative hip disease
Artificial knee joints	Replace artificial joints for patients suffering from rheumatic or degenerative knee disease
Injury products	Repair bone tissues and immobilize patients suffering from different kinds of bone injuries
OEM products	Orthopedic internal fixator and laparoscopic disposable surgical blade

(2) The production process of the product:

A. Artificial joints

Cobalt-Chromium-Molybdenum Alloy/ Titanium alloy → Casting/Forging → Machining → Grinding → Sand blasting → High sintering/Titanium powder plasma spraying/HA plasma spraying → Polishing → Rinsing → Marking → Final rinsing → Examining → Packaging → Sterilizing

B. Injury products

316L stainless steel → Machining → Polishing → Rinsing → Packaging → Examining → Sterilizing

(3) Supply of main raw materials:

Domestic Purchase:

(1)Titanium alloy bar: Mainly provided by Chung Cheng Co. Ltd and Chin Kang Technology Co. Ltd.

Foreign procurement parts:

(1) Stainless steel bar: The required stainless steel bar is imported mainly from the United States.
(2) Titanium alloy bar: The titanium alloy bar is imported mainly from the United States and Russia.
(3) Cobalt chrome molybdenum bar: The main import region for cobalt chrome molybdenum bar is from the United States.
(4) Plastic bar: The plastic bar is imported mainly from the United States and Europe.
(5) Ti bead: Titanium beads are mainly imported from the United States.
(6) Ti / HA powder: Mainly imported from Europe.
(7) F75 Ingot: The Ingot is mainly imported from the United States.

Main raw materials	Suppliers	Supply situation
Stainless steel bar	Carpenter	Good
Titanium alloy bar	Carpenter, Perryman, Chung Cheng, Chin Kang	Good
Cobalt chrome molybdenum	Carpenter, Edge	Good

bar		
Plastic bar	Quadrant, Orthoclastic	Good
Ti bead	Phelly Materials, Inc.	Good
Ti / HA powder	Ceram Gmbh	Good
F75 Ingot	Cannon-Muskegon	Good

(4) The names of customers who account for more than 10% of sales for any given year within the last two years, their purchase value and proportion, and reasons for changes (increase or decrease) in sales:

(1) Information of major suppliers in the 2 most recent years

Unit: NT$1,000

	2015				2016				As of March 31, 2017 (Note 2)			
Sl no.	Name	Amount	Proportion of total procurement value for the entire year (%)	Relationship with the issuer	Name	Amount	Proportion of total procurement value for the entire year (%)	Relationship with the issuer	Name	Amount	Percentage of net purchase as of the current year (%)	Relationship with the issuer
1	CeramTec AG	47,455	19.99	None	UMC	59,744	19.36	Affiliate company	CeramTec AG	23,474	20.94	None
2	Hamagawa Industrial	20,572	8.66	None	CeramTec AG	51,432	16.67	None	UMC	21,323	19.02	Affiliate company
3	Cannon-Muskegon	16,296	6.86	None	Hamagawa Industrial	21,328	6.91	None	Hamagawa Industrial	9,696	8.65	None
	Others	153,150	64.49		Others	176,048	57.06		Others	57,603	51.39	
	Net purchase	237,473	100.00		Net purchase	308,552	100.00		Net purchase	112,096	100.00	

Note 1: The names of supplier and the purchase amount and of those that purchase more than 10% of the total purchase in the past two years. However, for suppliers whose names are not permitted to be disclosed due to contract or the counterpart is an individual who is not an interested party, a code may be used.

Note 2: At the date of publication of the annual report, if any financial data for the most recent period of the companies listed and are able to purchase and sell by the securities operation site have been audited and attested or reviewed by a CPA, it shall also be disclosed therewith.

Reasons for addition or reduction in purchase:

The increase in company's purchase from UMC in 2016 is mainly due to the changes in the status of UMC from Subsidiary Company to Affiliated Company by adopting the equity method. UMC was 100% held by the company in 2015. However, the company sold the equities of UMC to Shinva United Orthopedic Corporation in 2016 while the company holds 49% of the Shinva United Orthopedic Corporation's equity. Therefore, generally speaking, the changes in major purchasing supplier in the past two years are relative and reasonable.

(2) Major trade debtor in the two most recent fiscal years:

Unit: NT$1,000

	2015				2016				As of March 31, 2017 (Note 2)			
Sl no.	Name	Amount	Proportion in total sales value for the entire year (%)	Relationship with the issuer	Name	Amount	Proportion in total sales value for the entire year (%)	Relationship with the issuer	Name	Amount	Percentage in net purchase as of the current year (%)	Relationship with the issuer
1	CPM MEDICAL	149,992	10.77	None	UMI	276,446	19.98	Affiliate company	UMI	79,483	22.00	Affiliate company
2	Jinan Lian Yong	64,738	4.65	None	Linkou Chang Gung Memorial Hospital	83,813	6.06	None	Linkou Chang Gung Memorial Hospital	21,223	5.88	None

3	Shanghai for the public	57,897	4.16	None	CPM MEDICAL	83,453	6.03	None	CPM MEDICAL	17,673	4.89	None
	Others	1,119,946	80.42		Others	939,628	67.93		Others	242,866	67.23	
	Net Sales	1,392,573	100.00		Net Sales	1,383,340	100.00		Net Sales	361,245	100.00	

Note 1: The names of customers and their gross sales amount and ratio for those that purchase more than 10% of the total sales amount in the past two years have been listed. However, of customers whose names cannot be disclosed due to contract or the counterparts is an individual who is not an interested party, a code is used.

Note 2: At the date of publication of the annual report, if any financial data for the most recent period of the companies that are listed and are able to be purchased and sold by the securities operation site have been audited and attested or reviewed by a CPA, it shall also be disclosed therewith.

Reasons for addition or reduction in sales: The increase in company's purchase from UMC in 2016 is mainly due to the changes in the status of UMC from Subsidiary Company to an affiliated company that adopts equity method. UMC was 100% held by the company in 2015. However, the company sold the equity of UMC to Shinva United Orthopedic Corporation in 2016, while the company holds 49% of the Shinva United Orthopedic Corporation's equity. The increase in sales to Linkou Chang Gung Memorial Hospital is due to the company becoming a major supplier to it. Therefore, generally speaking, the changes in major purchasing supplier in the past two years are relative and reasonable.

(5) Production volume over the two past years

Unit: Quantity: Set/pcs Unit: Value: 1,000 NT$

Year Production value Main products	2015			2016		
	Production capacity	Production quantity	Production value	Production capacity	Production quantity	Production value
Artificial joints	216,000 pcs	190,505 pcs	391,860	240,000 pcs	230,260 pcs	462,461
OEM products	14,719 pcs	14,719 pcs	12,862	2,309 pcs	2,309 pcs	4,923
Total	230,719 pcs	205,224 pcs	404,722	242,309 pcs	232,569 pcs	467,384

(6) Sales volume over the two past years

Unit: Quantity: Set/pcs Unit: Value: 1,000 NT$

Year Sales Volume & Value Main products	2015				2016			
	Internal sales		External sales		Internal sales		External sales	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Artificial joints	54,368 pcs	310,713	173,179 pcs	1,068,842	74,912 pcs	427,600	233,931 pcs	912,399
Spine and injury products	0	190	0	(8,062)	0	207	0	32,798
OEM products	0	0	26,886pcs	19,764	0	0	2,309 pcs	6,611
Other Products	0	1,126	0	0	0	1,611	0	2,114
Total	54,368 pcs	312,029	200,065 pcs	1,080,544	74,912 pcs	429,418	236,240 pcs	953,922

3. Number of serving employees, average year of employment, average age, and the ratio of educational level among the employees who have been serving in the Company for the past two years and as of the date of publication of the annual report

April 30, 2017

	Year	2015	2016	As of April 30, 2017
Number of employees	Business personnel	85	47	54
	Technical personnel	316	262	269
	Administrative personnel	110	83	84
	R&D personnel	153	132	133
	Total	664	523	539
Average age		34.9	36.7	36.9
Average Year of Employment		4.4	4.8	4.8
Educational level distribution ratio	PhD	1%	2%	2%
	Masters	9%	15%	15%
	University	60%	57%	57%
	High school	22%	23%	23%
	Less than high school	8%	3%	3%

4. Disbursements for Environmental Protection

Losses caused by environmental pollution (including fines) and the total amount of penalties in the past year, up to the printing of this annual report, as well as future response measures (including improvement measures) and possible expenditure (including losses incurred by not implementing response measures, penalties, and estimated amount of compensation; if reasonable estimation cannot be made, explain why such an estimation cannot be made.):

The company has not received any penalties and fines due to pollution for the past year and as of the date of publication of the annual report.

Relevant information in response to the EU Restriction of Hazardous Substances (RoHS): Not applicable.

5. Labor Relations:

(1)Various employee benefit plans, continuing education, training, retirement systems, and the state of implementation as well as various employee-employer agreements and measures for maintaining employee rights and interests

1. Implementation of welfare measures:

(1) The employees of United Orthopedic Corporation enjoy labor insurance, health insurance, and group insurance.

(2) When the company has a surplus at the end of the year, performance bonuses and employee bonuses will be given for outstanding performance.
(3) Distribute employee benefits to establish the Employee welfare committee in accordance with regulations for various kinds of employee welfare activities. For example, Labor Day, Dragon Boat Festival, Mid-Autumn Festival bonus, birthday bonus, birthday party, gatherings, club activities, staff travel, subsidies for weddings and funeral and so on.
(4) Increase the cohesion among the employees. Hold company family day activities and invite the employees, their relatives and friends to participate together.
(5) Award seniority awards to senior staff to appreciate their long-term support and contribution.
(6) Provide free health examination for employees every two years.

2. Education, training and development
(1) Employees are the most important asset of the United Orthopedic Corporation. The company provides appropriate and necessary training, so that employees can use their strengths and do their jobs well to achieve the objectives assigned by the organization, and thus improve the company's core competitive advantage. The training costs of the company in 2016 were 2.138 million NT$.
(2) Training development system:
Our training types are currently divided as:

①.Professional function introduction training: When new employees and existing employees are appointed in new position, professional function introduction training is given, so the employees may be able to meet the requirements of the function.

②.New employee introduction training: Help the new employees get familiar with administration and relevant training in the professional field in a short period of time during probation period.

③.Functional training: Provide training for personnel whose functions would have an impact on whether the product meet its requirement, so that they can have the necessary capability.

④.Management Training: Courses that improve the management skill of the managing personnel.

(3) Implementation of educational training:
United Orthopedic Corporation has strengthen the functional skills of the personnel and management skills of the managing personnel over the years to improve their quality. The company periodically sets up and executes annual training plans to meet the requirement of work objectives, functionality, management, new employment, self-development, and regulations. The statistics for educational training are as the following:

Internal training	External Courses	Average manpower hours of the training	Total cost of educational training
5658 Manpower hours	3234 Manpower hours	17.8 manpower	2,138 thousand NT$

3. Retirement policies and actual implementation:
The employee retirement policy of the company's employees is set in accordance with "Labor Standards Act" and “Labor Pension Statutes". The company reports and contributes pension to the Department of Trust, Bank of Taiwan or employee pension account in accordance with the regulations.

4. Code of Conduct:
The company has always valued transparency and rationalization of the policies and uses them as bridges for labor relation negotiation and communication. The company also makes policies for "work guidelines" based on Labor Standards Act and relevant regulations.

5. Employee communication channel:
(1) The company establishes the system of labor meetings in accordance with regulations. The meetings are held quarterly and are conducted in an open and two-way full communication manner.
(2) The company has established employee opinion box in each plant to report on issues at work.
(3) A fully functional internal website (Portal): The contents include all important internal messages.

6. Protective measures for the work environment and personal safety of the employees
(1) United Orthopedic Corporation puts safety as top priority while designing new plants.
(2) The company holds employees' health examination in accordance with "Labor health protection regulations" and arranges educational training in accordance with "Training Rules of Labor Safety and Health Education".
(3) Other than complying with Labor Safety and Health Act, the company has set up occupational hazard prevention plan, hired full-time health management personnel, conducts environment inspection periodically, and implements automatic inspection guidelines to effectively prevent the occurrence of occupational diseases and occupational hazards. The company has also produced and posted labor safety and health slogan in the company premises to enable the employees learn safety measures more easily and develop good and correct environmental safety measures and health concepts.

2. Losses arising as a result of labor disputes in the recent year up and as of the publication date of this annual report and disclosure of potential current and future losses and countermeasures:
The company has always been operating based on the core values of "integrity, responsibility, innovation, and happiness". The working guidelines have been stipulated in accordance with relevant regulations to promote harmony in labor relationships. Therefore, the company did not suffer from any labor disputes.

6. Important Contracts:

Supply and marketing contract, technical cooperation contract, project contract, long-term loan contract, and the parties, main contents, terms, and the start date of the material contract that affect the shareholders as of the publication date of the annual report should be listed: None.

VI. Financial Conditions

1. Condensed balance sheet and consolidated income statement for the most recent 5 years

(1) Condensed Balance Sheet - IFRS

Unit: NT$1,000

Item \ Year		Financial information for the most recent 5 years					As of 3/31/2017 (Note 2)
		2012	2013	2014	2015	2016	
Current assets		684,486	976,276	1,094,666	1,862,972	1,503,925	1,669,402
Property, plant and equipment		544,683	677,048	764,357	661,865	927,242	999,297
Intangible assets		21,858	26,997	20,949	15,135	38,329	37,365
Other assets		52,632	55,763	59,335	53,262	486,269	1,082,299
Total assets		1,303,659	1,736,084	1,939,307	2,593,234	2,955,765	3,788,363
Current liabilities	Before distribution	514,463	448,003	693,494	639,828	843,254	1,731,016
	After distribution	535,808	472,989	761,573	754,631	(Note 1)	(Note 1)
Non-current liabilities		171,501	436,876	234,955	180,357	310,965	291,168
Total liabilities	Before distribution	685,964	884,879	928,449	820,185	1,154,219	2,022,184
	After distribution	707,309	909,865	996,528	934,988	(Note 1)	(Note 1)
Equity attributable to owners of parent		617,695	851,205	1,010,858	1,773,049	1,801,546	1,766,179
Capital		463,625	533,700	559,761	717,469	717,469	717,469
Capital reserve		118,178	270,849	346,230	912,988	915,406	915,406
Reserved Earnings	Before distribution	41,440	44,677	95,943	156,049	187,080	183,489
	After distribution	20,095	19,691	27,864	41,246	(Note 1)	(Note 1)
Other equity		-5,548	1,979	8,924	-13,457	-46,793	-73,634
Treasury stock		0	0	0	0	0	0
Non-controlling equity		0	0	0	0	28,384	23,449
Equity Total	Before distribution	617,695	851,205	1,010,858	1,773,049	1,801,546	1,766,179
	After distribution	596,350	826,219	942,779	1,658,246	(Note 1)	(Note 1)

∗Companies having compiled an individual financial report shall compile individual condensed balance sheet and consolidated income statement.

∗Companies having adopted IFRS for financial reporting for less than five years should compile additional financial data based on the nation's financial and accounting guidelines. For details, please refer to data of table (2) below.

Note1: Annual general meeting has not been held, hence the distribution value is not included.

Note2: Financial information as of 2017 above has been reviewed and verified by accountants, adopting IFRS.

Condensed Consolidated Income Statement - IFRS

Unit: NT$1,000

Item \ Year	Financial information for the most recent 5 years					As of 3/31/2017 (Note 1)
	2012	2013	2014	2015	2016	
Operating Revenue	859,581	956,212	1,100,788	1,392,573	1,383,340	361,245
Gross profit	520,307	601,831	763,264	985,844	947,652	261,652
Net operating income	50,988	20,867	101,480	179,228	159,686	26,445
Non-operating income and expenses	-4,128	16,006	7,366	-13,458	-974	-32,519
Net income before tax	46,860	36,873	108,846	165,770	158,712	-6,074
Profit for the year from continuing operation Current period net profit	37,784	21,344	81,729	133,807	140,849	-7,835
Loss from suspended operations	0	0	0	0	0	0
Net profit (loss) in this period	37,784	21,344	81,729	133,807	140,849	-7,835
Total other comprehensive income for the year (net income after tax)	-5,148	10,765	1,467	-3,149	-49,034	-29,919
Total amount of Comprehensive profit/loss in the year	32,636	32,109	83,196	130,658	91,815	-37,754
Profit attributable to: Owners of parent company	37,784	21,344	81,729	133,807	146,601	-3,591
Net income attributable to non-controlling interests	0	0	0	0	-5,752	-4,244
Comprehensive income (loss) attributable to owners of parent company	32,626	32,109	83,196	130,658	102,816	-32,819
Comprehensive income (loss) attributable to non-controlling interests	0	0	0	0	-11,001	-4,935
Earnings per Share	0.81	0.41	1.52	2.30	2.06	-0.05

＊Companies having compiled an individual financial report shall compile individual condensed balance sheet and composite income sheet.

＊Companies having adopted IFRS for financial reporting for less than five years should compile additional financial data based on the nation's financial and accounting guidelines. For details, please refer to data of table (2) below.

Note 1: Financial information as of 2017 above has been reviewed and verified by accountants, adopting IFRS.

(2) Condensed Balance Sheet - IFRS Individual Financial Report

Unit: NT$1,000

Item \ Year		Financial information for the most recent 5 years				
		2012	2013	2014	2015	2016
Current assets		620,311	845,393	1,045,489	1,624,188	1,277,147
Property, plant and equipment		451,356	535,377	555,703	611,699	815,043
Intangible assets		21,858	26,888	20,888	15,134	32,613
Other assets		114,489	122,885	92,353	108,559	684,615
Total assets		1,208,014	1,530,543	1,714,433	2,359,580	2,809,418
Current liabilities	Before distribution	425,612	273,662	488,535	406,175	726,447
	After distribution	446,957	298,648	556,614	520,978	(Note 1)
Non-current liabilities		164,707	405,676	215,040	180,356	309,809
Total liabilities	Before distribution	590,319	679,338	703,575	586,531	1,036,256
	After distribution	611,664	704,324	771,654	701,334	(Note 1)
Equity attributable to owners of parent		617,695	851,205	1,010,858	1,773,049	1,773,162
Capital		463,625	533,700	559,761	717,469	717,469
Capital reserve		118,178	270,849	346,230	912,988	915,406
Reserved Earnings	Before distribution	41,440	44,677	95,943	156,049	187,080
	After distribution	20,095	19,691	27,864	41,249	(Note 1)
Other equity		-5,548	1,979	8,924	-13,457	-46,793
Treasury stock		0	0	0	0	0
Non-controlling equity		0	0	0	0	0
Equity Total	Before distribution	617,695	851,205	1,010,858	1,773,049	1,773,162
	After distribution	596,350	826,219	942,779	1,658,246	(Note 1)

＊Companies having compiled an individual financial report shall compile individual condensed balance sheet and composite income sheet.

＊Companies having adopted IFRS for financial reporting for less than five years should compile additional financial data based on the nation's financial and accounting guidelines. For details, please refer to data of table (2) below.

Note1: Annual general meeting has not been held, hence the distribution value is not included.

Note2: Financial information disclosed above has been reviewed and verified by accountants, adopting IFRS.

Condensed Consolidated Income Statement - IFRS Individual Financial Report

Unit: NT$1,000

Year / Item	Financial information for the most recent 5 years				
	2012	2013	2014	2015	2016
Operating Revenue	807,651	877,991	961,450	1,129,436	1,352,145
Gross profit	431,824	434,786	506,521	633,072	761,299
Net operating income	93,149	55,945	99,912	149,255	176,661
Non-operating income and expenses	-49,252	-25,901	10,417	15,766	-13,243
Net income before tax	43,897	30,044	110,329	165,021	163,418
Profit for the year from continuing operation Current period net profit	37,784	21,344	81,729	133,807	146,601
Loss from suspended operations	0	0	0	0	0
Net profit (loss) in this period	37,784	21,344	81,729	133,807	146,601
Total other comprehensive income for the year (net income after tax)	-5,148	10,765	1,467	-3,149	-43,785
Total amount of Comprehensive profit/loss in the year	32,636	32,109	83,196	130,658	102,816
Earnings per Share	0.81	0.41	1.52	2.30	2.06

＊Companies having compiled an individual financial report shall compile individual condensed balance sheet and consolidated income statement.

＊Companies having adopted IFRS for financial reporting for less than five years should compile additional financial data based on the nation's financial and accounting guidelines. For details, please refer to data of table (2) below.

Note 1: Financial information disclosed above has been reviewed and verified by accountants, adopting IFRS.

(3) Condensed Balance Sheet - Consolidated Financial Report Based on ROC GAAP

Unit: NT$1,000

Item \ Year		Financial information for the most recent 5 years (Note 1)				
		2012	2013	2014	2015	2016
Current assets		660,140	N/A	N/A	N/A	N/A
Funds and long-term investment		1,900				
Fixed assets		488,794				
Intangible assets		21,976				
Other assets		126,201				
Total assets		1,299,011				
Current liabilities	Before distribution	505,222				
	After distribution	526,567				
Long-term liabilities		129,830				
Other liabilities		29,320				
Total liabilities	Before distribution	664,372				
	After distribution	685,717				
Capital		463,625				
Capital reserve		118,178				
Retained earnings	Before distribution	54,995				
	After distribution	33,650				
Unrealized gains or losses of financial products		0				
Accumulated translation adjustments		6,127				
Net loss not recognized as pension cost		-8,286				
Shareholders' equity Total	Before distribution	634,639				
	After distribution	613,294				

Note 1: Financial information disclosed above has been reviewed and verified by accountants.

Condensed Balance Sheet - Consolidated Financial Report Based on ROC GAAP

Unit: NT$1,000

Year / Item	Financial information for the most recent 5 years (Note 1)				
	2012	2013	2014	2015	2016
Operating Revenue	859,581	N/A	N/A	N/A	N/A
Gross profit	520,307				
Net operating income	50,090				
Non-operating income and gains	13,561				
Non-operating expenses and losses	17,689				
Income from Continuing Operations before Tax	45,962				
Income from Continuing Operations after Tax	35,151				
Income (loss) from discontinued operations	0				
Extraordinary gain (loss)	0				
Cumulative effect of changes in accounting principle	0				
Profit or loss for the current period	35,151				
Earnings per Share	0.76				

Note 1: Financial information disclosed above has been reviewed and verified by accountants.

(4) Condensed Balance Sheet - ROC GAAP

Unit: NT$1,000

Item		Financial information for the most recent 5 years (Note 1) 2012	2013	2014	2015	2016
Current assets		595,721	N/A	N/A	N/A	N/A
Funds and long-term investment		116,284				
Fixed assets		436,237				
Intangible assets		21,976				
Other assets		83,305				
Total assets		1,253,523				
Current liabilities	Before distribution	421,612				
	After distribution	442,957				
Long-term liabilities		129,830				
Other liabilities		67,442				
Total liabilities	Before distribution	618,884				
	After distribution	640,229				
Capital		463,625				
Capital reserve		118,178				
Retained earnings	Before distribution	54,995				
	After distribution	33,650				
Unrealized gains or losses of financial products		0				
Accumulated translation adjustments		6,127				
Net loss not recognized as pension cost		-8,286				
Shareholders' equity Total	Before distribution	634,639				
	After distribution	613,294				

Note 1: Financial information disclosed above has been reviewed and verified by accountants.

Condensed Income Statement – ROC GAAP

Unit: NT$1,000

Year / Item	Financial information for the most recent 5 years (Note 1)				
	2012	2013	2014	2015	2016
Operating Revenue	807,651	N/A	N/A	N/A	N/A
Gross profit	431,824				
Net operating income	92,260				
Non-operating income and gains	13,094				
Non-operating expenses and losses	62,353				
Income from Continuing Operations before Tax	43,001				
Income from Continuing Operations after Tax	35,151				
Income (loss) from discontinued operations	0				
Extraordinary gain (loss)	0				
Cumulative effect of changes in accounting principle	0				
Profit or loss for the current period	35,151				
Earnings per Share	0.76				

Note 1: Financial information disclosed above has been reviewed and verified by accountants.

(3) Name of the CPA for the 5 most recent years and audit opinions

Audit year	Accounting firm	Name of the accountants	Audit opinion
2012	Ernst & Young	Chang,Chih-Ming, Yang,Zhi-Hui	Modified unqualified opinion
2013	Ernst & Young	Chang,Chih-Ming, Yang,Zhi-Hui	Modified unqualified opinion
2014	Ernst & Young	Chang,Chih-Ming, Yang,Zhi-Hui	Unqualified opinion
2015	Ernst & Young	Chang, Chih-Ming, Huang, Chien-Che	Unqualified opinion
2016	Ernst & Young	Chang, Chih-Ming, Huang, Chien-Che	Unqualified opinion

2. Financial ratios analysis for the most recent 5 years

(1) Financial Analysis - IFRS

Items	Year (Note 1)	Financial analysis of the most recent 5 years					As of 3/31/2017 (Note 2)
		2012	2013	2014	2015	2016	
Financial structure (%)	Liability to assets ratio	52.61	50.96	47.87	31.62	39.05	53.37
	Long-term capital to property, plant, and equipment ratio	144.89	190.24	162.98	295.38	227.82	205.87
Solvency (%)	Current ratio	133.04	217.91	157.84	291.91	178.34	121.51
	Liquidity ratio	59.01	108.19	75.8	210.46	107.45	84.02
	Interest coverage ratio	9.15	4.83	10.28	16.39	29.46	-15.39
Operation performance	Receivables turnover rate (times)	6.63	7.11	6.55	7.22	5.69	4.71
	Average days of collection	55	51	55	50	64	77
	Inventory turnover rate (times)	0.92	0.83	0.65	0.78	0.81	0.66
	Accounts payable turnover rate (times)	6.28	6.69	6.08	7.53	7.43	5.02
	Average days of sale	396	439	553	467	450	553
	Property, plant and equipment turnover rate (times)	1.80	1.56	1.52	1.95	1.74	1.50
	Total assets turnover rate (times)	0.71	0.62	0.59	0.61	0.49	0.42
Profitability	Return on assets (%)	3.52	1.92	4.97	6.29	5.24	-0.17
	Return on shareholders' equity (%)	6.04	2.90	8.77	9.61	7.88	-0.43
	Profit before tax to paid-up capital ratio (%) (Note 7)	4.33	7.58	10.76	9.34	8.81	-0.34
	Net income ratio (%)	4.39	2.23	7.42	9.60	10.18	-2.16
	Earnings per share (NT$)	0.81	0.41	1.52	2.30	2.06	-0.05
Cash flow	Cash flow ratio (%)	17.51	2.41	13.39	39.60	21.66	28.13
	Cash flow adequacy ratio (%)	33.27	16.82	22.12	38.75	36.72	224.50
	Cash re-investment ratio (%)	4.10	-0.66	4.26	8.59	2.90	21.39
Leverage	Operating leverage	7.97	21.77	5.99	4.57	4.45	7.35
	Financial leverage	1.12	1.85	1.13	1.06	1.03	1.09

Description of causes for changes to various financial ratios in the 2 most recent years. (analysis would not be required if the change is within 20%) (1) Liability to assets ratio: due to the increase of long-term deferred revenues from accounts receivable of associated enterprises in China with equity method investment, other receivables, advanced equipment payment increase and short-term loan for Kaohsiung phase-3 plant construction, proprietary technology for investing associated enterprises in China. (2) Long-term capital to property, plant, and equipment ratio: due to the increase of long-term deferred revenues from advanced equipment payment and short-term loan for Kaohsiung phase-3 plant construction, and proprietary technology for investing associated enterprises in China. (3) Current ratio: due to the reduction of to-be-sold non-current assets and the increase of short-term loan. (4) Liquidity ratio: due to the reduction of to-be-sold non-current assets and the increase of short-term loan. (5) Interest coverage ratio: due to the reduction of current interests, and income tax. (6) Receivables turnover rate: due to the increase of long-term deferred revenues from accounts receivable of associated enterprises in China with equity method investment, and the increase of accounts receivable of foreign clients more than the previous period. (7) Average days of collection: due to the increase of long-term deferred revenues from accounts receivable of associated enterprises in China with equity method investment, and the increase of accounts receivable of foreign clients more than the previous period. (8) Cash flow ratio: due to the reduction of net cash flow of current business operation and the increase of short-term loan more than the previous period. (9) Cash re-investment ratio: due to the reduction of net cash flow of current business operation, and current assets and the increase of property, plant, and equipment, investment adopting equity method, short-term loan, and cash dividend.

＊Companies having produced an individual financial report shall produce an analysis report on individual financial ratios.

＊Companies having adopted IFRS for financial reporting for less than five years should compile additional financial data based on the nation's financial and accounting guidelines. For details, please refer to data of table (2) below.

Note 1: Year of data which was not audited by the accountants shall be remarked.

Note 2: Financial information as of 2017 above has been reviewed and verified by accountants, adopting IFRS.

Individual Financial Analysis - IFRS

Items		Year (Note 1): Financial analysis of the most recent 5 years 2012	2013	2014	2015	2016	As of 3/31/2017 (Note 2)
Financial structure (%)	Liability to assets ratio	48.86	44.38	41.03	24.85	36.88	N/A
	Long-term capital to property, plant, and equipment ratio	173.34	234.76	220.60	319.34	255.56	
Solvency (%)	Current ratio	145.74	308.91	214.00	399.87	175.80	
	Liquidity ratio	89.08	189.29	137.45	279.14	107.69	
	Interest coverage ratio	10.03	5.07	13.97	24.16	36.77	
Operation performance	Receivables turnover rate (times)	2.90	2.77	2.53	2.67	3.33	
	Average days of collection	125	131	144	136	109	
	Inventory turnover rate (times)	1.54	1.45	1.24	1.15	1.24	
	Accounts payable turnover rate (times)	5.91	6.43	6.82	6.07	7.07	
	Average days of sale	237	251	292	315	292	
	Property, plant and equipment turnover rate (times)	2.07	1.77	1.76	1.93	1.89	
	Total assets turnover rate (times)	0.71	0.64	0.59	0.55	0.52	
Profitability	Return on assets (%)	3.71	2.00	5.47	6.85	5.81	
	Return on shareholders' equity (%)	6.04	2.90	8.77	9.61	8.26	
	Profit before tax to paid-up capital ratio (%) (Note 7)	7.10	3.52	10.91	9.30	9.21	
	Net income ratio (%)	4.67	2.43	8.50	11.84	10.84	
	Earnings per share (NT$)	0.81	0.41	1.52	2.30	2.06	
Cash flow	Cash flow ratio (%)	11.99	34.54	11.98	68.69	21.89	
	Cash flow adequacy ratio (%)	21.62	30.77	32.74	52.93	48.61	
	Cash re-investment ratio (%)	0.48	5.13	2.39	9.96	1.95	
Leverage	Operating leverage	4.12	7.35	4.95	4.16	3.81	
	Financial leverage	1.05	1.15	1.09	1.05	1.02	

Description of causes for changes to various financial ratios in the 2 most recent years. (analysis would not be required if the change is within 20%)

(1) Liability to assets ratio: due to the increase of property, plant, and equipment, investment adopting equity method, short-term loan, and long-term deferred revenue.

(2) Current ratio: due to the reduction of cash and cash equivalents and the increase of short-term loan.

(3) Liquidity ratio: due to the reduction of cash and cash equivalents and the increase of short-term loan.

(4) Interest coverage ratio: due to the reduction of current interests, and income tax.

(5) Receivables turnover rate: due to the increase of current revenue more than the previous year.

(6) Cash flow ratio: due to the reduction of net cash flow of current business operation and the increase of short-term loan more than the previous period.

(7) Cash re-investment ratio: due to the reduction of net cash flow of current business operation, and current assets and the increase of property, plant, and equipment, investment adopting equity method, short-term loan, and cash dividend.

＊Companies having produced an individual financial report shall produce an analysis report on individual financial ratios.

＊Companies having adopted IFRS for financial reporting for less than five years should compile additional financial data based on the nation's financial and accounting guidelines. For details, please refer to data of table (2) below.

Note 1: Year of data which was not audited by the accountants shall be remarked.

Note 2: The individual financial report based on IFRS was not produced for the 2017 data above following the regulation. Therefore, no individual financial data is available.

■ Calculation formula for financial analysis as follows:

1. Financial structure
   (1) Debt-to-asset ratio = total liabilities / total assets.
   (2) Proportion of long-term funds in property, factory and equipment ratio = (total equity + non-current liabilities)/net property, factory and equipment.
2. Solvency
   (1) Current ratio = current assets / current liabilities.
   (2) Quick ratio = (current assets – inventory – prepaid expense) / current liabilities.
   (3) Times interest earned = net income before income tax and interest expense / current interest expense.
3. Operating ability
   (1) Receivable (including accounts receivable and business-related notes receivable) turnover ratio = net operating revenue / average balance of receivable of the period (including accounts receivable and business-related notes receivable).
   (2) Average days of collection = 365 / receivables turnover ratio.
   (3) Inventory turnover ratio = cost of goods sold / average amount of inventory.
   (4) Payable (including accounts payable and business-related notes payable) turnover ratio = cost of goods sold / average balance of payable of the period (including accounts payable and business-related notes payable).
   (5) Average days of sales = 365 / inventory turnover ratio.
   (6) Property, plant, and equipment (PP&E) turnover ratio = Net sales/Average value of PP&E
   (7) Total asset turnover rate = net sales / average total assets.
4. Profitability
   (1) Return on assets ＝ [net income + interest expense (1– tax rate)] / average total assets.
   (2) Return on equity = profit and loss after tax/average total equity.
   (3) Net profit margin = net income / net sales.
   (4) Earnings per share = (net income (loss) attributable to owners of parent Company – dividends on preferred shares) / weighted average number of issued shares.
5. Cash flows
   (1) Cash flow ratio = net cash flow from operating activities / current liabilities.
   (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (capital expenditures + inventory increase + cash dividend) for the most recent five years.
   (3) Cash flow reinvestment ratio = (Net cash flow from operating activities – cash dividend) / gross fixed assets value + long-term investment + other assets + working capital). (Note 5)
6. Leverage:
   (1) Degree of operating leverage (DOL) = (Net operating revenue - operating change costs and expenses) / Operating profit (Note 6).
   (2) Financial leverage = operating income / (operating income - interest expenses).

Note 4: Special attention shall be paid to the following matters when using the calculation formula of earning per share above:
1. It should be based on the weighted average number of shares of common stock rather than the number of issued shares at the end of the year.
2. Where there is cash replenishment or treasury stock transaction, the circulation period should be considered when calculating the weight average number of shares.
3. In the case of capital increase by surplus or by capital reserve, the annual and semi-annual earnings per share of previous years shall be retrospectively adjusted in accordance with the proportion of capital increase without considering the issuance period of such capital increase.
4. If the preferred share cannot be converted into cumulative preferred shares, then the dividend of the year (whether it has been issued or not) shall be deducted from net income after tax (NIAT), or included as a net loss after tax. If a preferred stock is designated as non-cumulative, the dividend of the preferred stock should be deducted from the net profit after tax if net profit after tax exists; no adjustment is required in case of loss.

Note 5: Special attention should be paid to the following matters when measuring cash flow analysis:
1. Net cash flow from operating activities is the net cash inflow from operating activities in the cash flow statement.
2. Capital expenditure is the annual cash outflow of capital investment.

3. The increase in inventory is counted only when the balance at the end of the period is greater than the balance at the beginning of the period. If the inventory decreases at the end of the year, it is counted as zero.
4. Cash dividends include the cash dividends of common stocks and preferred stocks.
5. Gross value of PP&E shall refer to the total value of PP&E minus accumulated depreciation.

Note 6: The issuer shall classify the operating costs and operating expenses as fixed or variable in accordance with their nature. If it involves estimation or subjective judgment, attention should be paid to its rationality and consistency.

Note 7: Where company shares have no par value or where the par value per share is not NT$10, any calculations that involve paid-in capital and its ratio shall be replaced with the equity ratio belonging to the owner of the parent company of the asset balance sheet.

(2) Financial Analysis - ROC GAAP

Analysis Item			Year: 2012	2013	2014	2015	2016
			Financial data from the last five years				
Financial structure (%)	Liability to assets ratio		49.37	N/A	N/A	N/A	N/A
	Long-term fund to fixed assets ratio		175.24				
Solvency (%)	Current ratio		141.29				
	Liquidity ratio		91.68				
	Interest coverage ratio		9.85				
Operating ability	Receivables turnover rate (times)		2.90				
	Average days of collection		126				
	Inventory turnover rate (times)		1.76				
	Payables turnover rate		5.92				
	Average days of sale		207				
	Fixed asset turnover (times)		2.15				
	Total assets turnover rate (times)		0.69				
Profitability	Return on assets (%)		3.37				
	Return on shareholders' equity (%)		5.44				
	to paid-in capital ratio	Operating Profit	19.89				
		Pre-tax net profit	9.27				
	Net income ratio (%)		4.35				
	Earnings per share (NT$)		0.76				
Cash Flow	Cash flow ratio (%)		10.68				
	Cash flow adequacy ratio (%)		49.19				
	Cash re-investment ratio (%)		-0.13				
Leverage	Operating leverage		1.90				
	Financial leverage		1.06				
Description of causes for changes to various financial ratios in the 2 most recent years. (analysis would not be required if the change is within 20%): N/A							

Consolidated Financial Analysis - ROC GAAP

<table>
<tr><td colspan="3">Year</td><td colspan="5">Financial data from the last five years</td></tr>
<tr><td colspan="3">Analysis Items</td><td>2012</td><td>2013</td><td>2014</td><td>2015</td><td>2016</td></tr>
<tr><td rowspan="2">Financial structure (%)</td><td colspan="2">Liability to assets ratio</td><td>51.14</td><td rowspan="22">N/A</td><td rowspan="22">N/A</td><td rowspan="22">N/A</td><td rowspan="22">N/A</td></tr>
<tr><td colspan="2">Long-term fund to fixed assets ratio</td><td>156.39</td></tr>
<tr><td rowspan="3">Solvency (%)</td><td colspan="2">Current ratio</td><td>130.66</td></tr>
<tr><td colspan="2">Liquidity ratio</td><td>61.45</td></tr>
<tr><td colspan="2">Interest coverage ratio</td><td>8.99</td></tr>
<tr><td rowspan="7">Operating ability</td><td colspan="2">Receivables turnover rate (times)</td><td>6.59</td></tr>
<tr><td colspan="2">Average days of collection</td><td>56</td></tr>
<tr><td colspan="2">Inventory turnover rate (times)</td><td>1.01</td></tr>
<tr><td colspan="2">Payables turnover rate</td><td>6.28</td></tr>
<tr><td colspan="2">Average days of sale</td><td>362</td></tr>
<tr><td colspan="2">Fixed asset turnover (times)</td><td>1.99</td></tr>
<tr><td colspan="2">Total assets turnover rate (times)</td><td>0.71</td></tr>
<tr><td rowspan="6">Profitability</td><td colspan="2">Return on assets (%)</td><td>3.31</td></tr>
<tr><td colspan="2">Return on shareholders' equity (%)</td><td>5.44</td></tr>
<tr><td rowspan="2">to paid-in capital ratio</td><td>Operating Profit</td><td>10.80</td></tr>
<tr><td>Pre-tax net profit</td><td>9.91</td></tr>
<tr><td colspan="2">Net income ratio (%)</td><td>4.08</td></tr>
<tr><td colspan="2">Earnings per share (NT$)</td><td>0.76</td></tr>
<tr><td rowspan="3">Cash Flow</td><td colspan="2">Cash flow ratio (%)</td><td>16.45</td></tr>
<tr><td colspan="2">Cash flow adequacy ratio (%)</td><td>40.30</td></tr>
<tr><td colspan="2">Cash re-investment ratio (%)</td><td>3.28</td></tr>
<tr><td rowspan="2">Leverage</td><td colspan="2">Operating leverage</td><td>2.76</td></tr>
<tr><td colspan="2">Financial leverage</td><td>1.13</td></tr>
<tr><td colspan="8">Description of causes for changes to various financial ratios in the 2 most recent years. (analysis would not be required if the change is within 20%): N/A</td></tr>
</table>

■ Calculation formula for financial analysis as follows:

1. Financial structure
   (1) Debt-to-asset ratio = total liabilities / total assets.
   (2) Long-term fund to fixed assets ratio＝(net shareholders' equity + long-term debt) / net fixed assets.
2. Solvency
   (1) Current ratio = current assets / current liabilities.
   (2) Quick ratio = (current assets – inventory – prepaid expense) / current liabilities.
   (3) Times interest earned = net income before income tax and interest expense / current interest expense.
3. Operating ability
   (1) Receivable (including accounts receivable and business-related notes receivable) turnover ratio = net operating revenue / average balance of receivable of the period (including accounts receivable and business-related notes receivable).
   (2) Average days of collection = 365 / receivables turnover ratio.
   (3) Inventory turnover ratio = cost of goods sold / average amount of inventory.
   (4) Payable (including accounts payable and business-related notes payable) turnover ratio = cost of goods sold / average balance of payable of the period (including accounts payable and business-related notes payable).
   (5) Average days of sales = 365 / inventory turnover ratio.
   (6) Fixed assets turnover ratio＝net sales / average total assets.
   (7) Total asset turnover rate = net sales / average total assets.
4. Profitability
   (1) Return on assets ＝ [net income + interest expense (1– tax rate)] / average total assets.
   (2) Return on shareholder's equity＝ net income / net average shareholders' equity.
   (3) Net profit margin = net income / net sales.
   (4) Earnings per share ＝ (net income - dividend to preferred stock) / weighted average of shares issued. (Note 4)
5. Cash flows
   (1) Cash flow ratio = net cash flow from operating activities / current liabilities.
   (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (capital expenditures + inventory increase + cash dividend) for the most recent five years.
   (3) Cash reinvestment ratio = (net cash flows from operating activities – cash dividend) / (gross fixed assets + long-term investment + other assets + working capital). (Note 5)
6. Leverage:
   (1) Degree of operating leverage (DOL) = (Net operating revenue - operating change costs and expenses) / Operating profit (Note 6).
   (2) Financial leverage = operating income / (operating income - interest expenses).

Note 3: Special attention shall be paid to the following matters when using the calculation formula of earning per share above:
1. It should be based on the weighted average number of shares of common stock rather than the number of issued shares at the end of the year.
2. Where there is cash replenishment or treasury stock transaction, the circulation period should be considered when calculating the weight average number of shares.
3. In the case of capital increase by surplus or by capital reserve, the annual and semi-annual earnings per share of previous years shall be retrospectively adjusted in accordance with the proportion of capital increase without considering the issuance period of such capital increase.
4. If the preferred share cannot be converted into cumulative preferred shares, then the dividend of the year (whether it has been issued or not) shall be deducted from net income after tax (NIAT), or included as a net loss after tax. If a preferred stock is designated as non-cumulative, the dividend of the preferred stock should be deducted from the net profit after tax if net profit after tax exists; no adjustment is required in case of loss.

Note 4: Special attention should be paid to the following matters when measuring cash flow analysis:
1. Net cash flow from operating activities is the net cash inflow from operating activities in the cash flow statement.
2. Capital expenditure is the annual cash outflow of capital investment.
3. The increase in inventory is counted only when the balance at the end of the period is greater than the balance at the beginning of the period. If the inventory decreases at the end of the year, it is counted as zero.
4. Cash dividends include the cash dividends of common stocks and preferred stocks.

5. Gross fixed assets refer to the total fixed assets before the deduction of accumulated depreciation.

Note 5: The issuer shall classify the operating costs and operating expenses as fixed or variable in accordance with their nature. If it involves estimation or subjective judgment, attention should be paid to its rationality and consistency.

3. **Audit Report from the Supervisors or Audit Committee in the Past Fiscal Year**

<u>United Orthopedic Corporation</u>

Supervisors' Audit Report

The Board of Directors has prepared the Corporation's 2016 Operation Report, Financial Statements, and Earings Distribution Plan, which have been reviewed and found to be correct and accurate by the Supervisors. According to Article 219 of the Company Law, we submit this report and please inspect.

To

2017 Annual General Meeting

United Orthopedic Corporation

Supervisors: Wang, Ching-Hsiang

Wong, Chi-Yin

Chen, Li-Ju

March 8, 2017

4. **Latest annual financial report, including the audit report of the accountants, two years of balance sheets for comparison, consolidated income statement, statement of changes in equity, cash flow statement, and annotations or annexed tables.**

ACCOUNTANTS' AUDIT REPORT

To The United Orthopedic Corporation,

Audit opinion

We have audited the consolidated balance sheets of the United Orthopedic Corporation and its subsidiaries as of December 31, 2016 and 2015 and the related consolidated income statements, consolidated statements of changes in equity, consolidated cash flow statements and consolidated financial statement annotations (including major accounting policy summary) for the years ended December 31, 2016 and 2015.

In our opinion, the consolidated financial statements referred to above present fairly, in all material aspects, the consolidated financial position of the United Orthopedic Corporation and its subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years ended December 31, 2016 and 2015, are in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, Interpretations made by the International Financial Reporting Interpretations Committee as endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for the Audit

We have audited the accounts in accordance with the Regulations Governing Auditing and Attestation of Individual Financial Statements by Certified Public Accountants and Generally Accepted Auditing Standards (GAAS). Our CPA will further explain the responsibilities of auditors during the audit of consolidated financial statements based on the principles mentioned below. The independent accountants of Ernst & Young will follow the ethical code of conduct for accountants and will be neutral in their approach to United Orthopedic Corporation and its subsidiaries in fulfilling their duties. We believe that the proofs for audit obtained are sufficient and appropriate and provide a basis for our opinion.

Key Audit Items

Key audit items refer to the most critical items in the 2016 consolidated financial statement of the United Orthopedic Corporation and its subsidiaries being audited by the accountants when performing their professional judgment. These items form part of the verification process of the overall consolidated financial statements and the audit opinion; hence, the CPA will not offer any separate opinion on them.

Inventory valuation

The net inventory of the United Orthopedic Corporation and its subsidiaries as of December 31, 2016, was NT$573,626,000, accounting for 19% of the consolidated assets, which is significant for consolidated financial statements. Hence, the accountants have determined inventory valuation as a key audit item. The audit procedure conducted included but is not limited to the following audit procedures: Interact with the management on the effectiveness of internal control followed to deal with drop in prices of inventory and loss due to inventory carryover. We have visited the company's warehouse to assess the conditions there and storage of inventories. We have evaluated the appropriateness of the management's accounting policy on idle and overdue inventories, including their identification. We have randomly picked inventory samples to audit their sales certificates, and validate the inventory valuation. Our accountants have also considered the appropriateness of inventory disclosure mentioned in Notes 5 and 6 of the consolidated financial statement.

Revenue recognition

The primary products of the United Orthopedic Corporation and its subsidiaries are orthopedic implants for hip/knee replacement, trauma-treatment and OEM products, and the revenue recognized from their sales in 2016 was NT$1,383,340,000, which is significant in relation to the consolidated financial statement. Hence, the accountants consider inventory valuation as a key audit item. The audit procedure followed included is not limited to the following audit procedures: examine the appropriateness of the accounting policy on the revenue assessment. We have discussed with the management the effectiveness of internal control followed for the sales cycle. We have assessed the product types, regions and monthly gross profit ratio. We have also assessed the procedures followed on major returns and allowance, including the reasons for returns and allowance. We have also conducted sales cut-off tests before and after the balance sheet as of date. We have selected critical clients as samples to study the transaction criteria and validate the relevant certificates. Our accountants have also considered the appropriateness of revenue disclosure shown in Note 6 of the consolidated financial statement.

Responsibilities of the management and the governing bodies for the consolidated financial statement

To ensure that the consolidated financial statements do not contain material misstatements due to fraud or errors, the management is responsible for preparing fairly presented individual financial statements in accordance with regulations on the preparation of financial reports by security issuers and IFRS, IAS as approved by FSC to be in conformity with a pattern, and to maintain necessary internal controls.

In preparing the Consolidated Financial Statements, the responsibility of the management includes the assessment of the ability of operating continuously of the United Orthopedic Corporation, and its subsidiaries, disclosure of related matters, and the adoption of a consistent accounting pattern, unless it intends to liquidate the Company and its subsidiaries, terminate the business, or no practicable measures other than liquidation or termination of the business.

The governing units (including the Audit Committee or Supervisors) of the United Orthopedic Corporation and its subsidiaries are responsible for supervising the financial reporting procedures.

Responsibilities of the CPA for auditing the consolidated financial statements

The CPA's objective while auditing the consolidated financial statements was to provide reasonable assurance to whether they contained any material misstatements due to fraudulence or errors and to issue the audit report. "Reasonable assurance" refers to a high level of credibility; nevertheless, our audit carried out according to GAAP cannot guarantee that material misstatement will be detected in the consolidated financial statements. There could still be material misstatements resulted from fraudulence or errors. If the misstated individual amounts or aggregated sums could influence the economic decisions made by the readers of the consolidated financial statements, it will be deemed as material.

We have exercised professional judgment and maintained professional skepticism while abiding by GAAS in our audit. The CPA has also executed the following tasks:

1. Identified and evaluated the likely risks from material misstatements in the consolidated financial statements as a result of fraudulence or errors, designed and executed proper countermeasures against risks identified, and also established sufficient and appropriate audit mechanism to serve as the basis for the auditor's report. As fraud may involve collusion, forgery, deliberate omissions, false statements, or violations of internal controls, the risks of material misstatements due to fraud is greater than that due to errors.

2. Have learnt about the internal control mechanism useful for auditing work and designed appropriate audit procedures without the intention to express any opinion on the validity of the internal control of the United Orthopedic Corporation and its subsidiaries.

3. Evaluated the appropriateness of the accounting policies adopted by the management and the reasonableness of the accounting assessment and related disclosures made accordingly.

4. Based on the proofs for audit, the CPA made conclusions on the appropriateness of the use of going-concern accounting procedures and if any significant doubt exists about the capacity of the United Orthopedic Corporation and its subsidiaries to continue their operations or whether any significant uncertainty existed. If the CPA considers that material uncertainty exists in these matters or conditions, the CPA has to alert in their audit report the users of the consolidated financial statements to pay attention to relevant disclosures in the statements, or to revise the audit opinion when such disclosure is inappropriate. Our conclusion is based on the proof available for audit as of the date of the audit report, only that future events or situations may lead to the cessation of operations of the United Orthopedic Corporation and its subsidiaries.

5. Evaluate the overall expression, structure and content of the consolidated financial statements (including related notes) and if these statements present fairly the related transactions and events.

6. Obtain sufficient and appropriate proof for audit on the finances of the individual entities in the group to state our opinion on the consolidated financial statements. The CPA is responsible for guidance, supervision and implementation of the group's audit, and for developing audit report on the group.

Communications between the CPA and the Company's governing body consider the scope and timing of the planned audit and material audit findings (including any significant deficiencies in the internal controls during the audit process).

We have also provided the governing body with our statement of independence in accordance with the professional ethics of accountants and communicated to the governing body the facts and issues that may be deemed to have an influence on our independence as accountants as well as other matters (including related protective measures).

In the communications between the CPA and the Company's governing body, we have determined the key audit items from the 2016 consolidated financial statements of the United Orthopedic Corporation and its subsidiaries. Such matters have been explicitly highlighted in the audit report, but do not include information prohibited by law or, in extremely rare cases and with reasonable anticipation, where we have decided not to communicate about specific items as the negative effects of such disclosure would far exceed the benefits gained from the perspective of public interest.

Others

United Orthopedic Corporation has submitted individual financial statements as of 2016 and 2015, and the CPA has issued the audit report with unqualified opinion.

Ernst & Young
Publication of corporate financial statements approved by the authorities
Audit Document No.: (91) Securities and Futures Bureau (6) No. 144183
Financial Supervisory Committee (6) No. 0970038990

Chang, Chih-Ming

Accountant:

Huang, Chien-Che

March 7, 2017

United Orthopedic Corporation and its subsidiaries
Consolidated Financial Statements
December 31, 2016 and December 31, 2015

Unit: NT$1,000

Assets			December 31, 2016		December 31, 2015	
Code	Accounting item	Note	Amount	%	Amount	%
	Current assets					
1100	Cash and cash equivalents	4 & 6. 1	$477,926	17	$731,437	28
1150	Net notes receivable	4 & 6. 4	3,252	-	658	-
1170	Net accounts receivable	4 & 6. 5	223,814	8	189,630	7
1180	Accounts receivable - related parties (net)	4, 6. 5 & 7	68,640	2	-	-
1200	Other accounts receivable		8,994	-	4,321	-
1210	Other accounts receivable - related parties	7	107,274	4	-	-
130x	Inventory	4 & 6. 6	573,626	19	491,773	19
1410	Prepayment		37,159	1	29,452	1
1460	Non-current assets held for sale (net)	4 & 6. 8	-	-	415,025	16
1470	Other current assets		3,240	-	676	-
11xx	Total current assets		1,503,925	51	1,862,972	71
	Non-current Assets					
1543	Financial assets carried at cost - non-current	4 & 6. 2	2,850	-	2,850	-
1546	Investment in debt instrument in non-active market - non-current	4 & 6. 3 & 8	6,320	-	6,085	-
1550	Investment using equity method	4 & 6. 7	414,657	14	-	-
1600	Property, plant and equipment	4, 6. 9 & 8	927,242	31	661,865	26
1780	Intangible assets	4 & 6. 10	38,329	1	15,135	1
1840	Deferred income tax assets	4 & 6. 23	51,483	2	34,412	1
1900	Other non-current assets	8	10,959	1	9,915	1
15xx	Total Non-current assets		1,451,840	49	730,262	29
1xxx	Total assets		$2,955,765	100	$2,593,234	100

(Please refer to the notes to the consolidated financial statements)

Chairman: Lin, Yan-Shen General General Manager: Lin, Yan-Shen Accounting Manager: Teng, Yuan-Chang

United Orthopedic Corporation and its subsidiaries
Consolidated Balance Sheet (continued)
December 31, 2016 and December 31, 2015

Unit: NT$1,000

Liabilities and Equity			December 31, 2016		December 31, 2015	
Code	Accounting item	Note	Amount	%	Amount	%
	Current liabilities					
2100	Short-term loan	4 & 6. 11	$395,625	13	$72,839	3
2110	Short-term notes and bills payable	4 & 6. 12	50,000	2	-	-
2150	Notes payable		2,100	-	3,740	-
2170	Accounts payable		41,596	1	56,259	2
2180	Accounts payable - related parties	7	13,568	1	-	-
2200	Other accounts payable		249,859	8	207,357	8
2230	Current income tax liabilities	4 & 6. 23	42,724	2	39,443	2
2260	Liabilities directly associated with non-current assets held for sale	4 & 6. 8	-	-	215,543	8
2300	Other current liabilities		10,677	1	5,485	-
2322	Long-term loan due within one year or one operating cycle	4 & 6. 14	37,105	1	37,521	2
21xx	Total current liabilities		843,254	29	638,187	25
	Non-current liabilities					
2540	Long-term loans	4 & 6. 14	155,977	5	148,083	6
2570	Deferred income tax liabilities	4 & 6. 23	-	-	4,714	-
2600	Other non-current liabilities		1,766	-	1,796	-
2630	Long-term deferred income	6. 7	130,739	4	-	-
2640	Net defined benefit liability - non-current	4 & 6. 15	22,483	1	27,405	1
25xx	Total non-current liabilities		310,965	10	181,998	7
2xxx	Total Liabilities		1,154,219	39	820,185	32
31xx	Equity attributable to owners of parent	4 & 6. 16				
3100	Capital					
3110	Capital - common stock		717,469	24	712,049	28
3130	Certificate of Entitlement to New Shares form Convertible Bond		-	-	5,420	-
	Total capital		717,469	24	717,469	28
3200	Capital reserve		915,406	31	912,988	35
3300	Retained earnings					
3310	Legal reserve		41,246	1	27,865	1
3350	Undistributed earnings		145,834	5	128,184	5
	Total retained earnings		187,080	6	156,049	6
3400	Other equity					
3410	Conversion difference of financial statements of foreign operations		(31,620)	(1)	7,567	-
3470	and directly related equity of non-current assets held for sale	4 & 6. 8	-	-	3,831	-
3491	Employee unearned remuneration	4 & 6. 17	(15,173)	-	(24,855)	(1)
	Total other equity		(46,793)	(1)	(13,457)	(1)
32xx	Non-controlling equity	6. 16	28,384	1	-	-
3xxx	Total Equity		1,801,546	61	1,773,049	68
	Total liabilities and equity		$2,955,765	100	$2,593,234	100

(Please refer to the notes to the consolidated financial statements)

Chairman: Lin, Yan-Shen General General Manager: Lin, Yan-Shen Accounting Manager: Teng, Yuan-Chang

United Orthopedic Corporation and its subsidiaries
Consolidated Income Statement
January 1 to December 31, 2016 and 2015

Unit: NT$1,000

Code		Notes	2016 Amount	2016 %	2015 Amount	2015 %
4000	Operating Revenue	4 & 6. 18	$1,383,340	100	$1,392,573	100
5000	Operating costs	6. 6	435,688	31	406,729	29
5900	Gross profit		947,652	69	985,844	71
5920	Realized (unrealized) sales profit and loss		31,816	2	-	-
5950	Net gross profit		979,468	71	985,844	71
6000	Operating expenses					
6100	Marketing Expense		511,678	37	499,171	36
6200	Administrative Expense		146,873	11	155,795	11
6300	R&D Expenses		161,231	12	151,650	11
	Total operating expenses		819,782	60	806,616	58
6900	Operating Profit		159,686	11	179,228	13
7000	Non-operating income and expenses	4 & 6. 21				
7010	Other income		40,977	3	6,340	-
7020	Other profit and loss		(23,169)	(2)	(9,028)	(1)
7050	Financial cost		(5,575)	-	(10,770)	(1)
7370	Share of the profit and loss of the affiliated enterprises and joint ventures using equity method		(13,207)	(1)	-	-
	Total non-operating income and expenses		(974)	-	(13,458)	(2)
7900	Net income before tax		158,712	11	165,770	11
7950	Income tax expenses	4 & 6. 23	(17,863)	(1)	(31,963)	(2)
8200	Current period net profit		140,849	10	133,807	9
8300	Other comprehensive gain or loss	4 & 6. 22				
8310	Items that will not be reclassified to profit or loss:					
8311	The amount to be measured again when the welfare plan is determined		(767)	-	(6,775)	-
8349	And income taxes relating to profit/loss items not to be reclassified		-	-	1,152	-
8360	Items that may be reclassified to profit or loss					
8361	Conversion difference of financial statements of foreign operations		(47,971)	(3)	(1,635)	-
8370	Equity directly relating to non-current assets held for sale		(4,616)	-	4,616	-
8399	Income taxes relating to items which may be reclassified to profit/loss		4,320	-	(507)	-
	comprehensive income or loss (net value after tax) in this period		(49,034)	(3)	(3,149)	-
8500	Total amount of Comprehensive profit/loss in the year		$91,815	7	$130,658	9
8600	Profit attributable to:					
8610	Owners of parent company		$146,601		$133,807	
8620	Non-controlling equity		(5,752)		-	
	Total		$140,849		$133,807	
8700	Total comprehensive income attributable to:					
8710	Owners of parent company		$102,816		$130,658	
8720	Non-controlling equity		(11,001)		-	
	Total		$91,815		$130,658	
	Earnings per share (NT$)	4 & 6. 24				
9750	Basic earnings per share		$2.06		$2.30	
9850	Diluted earnings per share		$2.05		$2.23	

(Please refer to the notes to the consolidated financial statements)

Chairman: Lin,Yan-Sheng General General Manager: Lin, Yan-Shen Accounting Manager: Teng, Yuan-Chang

United Orthopedic Corporation and its subsidiaries
Consolidated Statement of Changes in Equity
January 1 to December 31, 2016 and 2015

Unit: NT$1,000

Code	Article	Equity attributable to owners of parent										
		Capital	Certificate of Entitlement to New Shares form Convertible Bond	Capital reserve	Legal reserve	Undistributed earnings	Conversion difference of financial statements of foreign operations	Equities directly related to non-current assets held for sale	Employees unearned remuneration	Equity attributable to owners of parent company	Non-controlling equity	Total equity
		3100	3130	3200	3310	3350	3410	3470	3491	31XX	36XX	3XXX
A1	Balances on January 1, 2015	$559,761	$-	$346,230	$19,692	$76,251	$8,924	$-	$-	$1,010,858	$-	$1,010,858
	2014 earnings distribution											
B1	Appropriate legal reserve	-	-	-	8,173	(8,173)	-	-	-	-	-	-
B5	Common stock - cash dividend	-	-	-	-	(68,078)	-	-	-	(68,078)	-	(68,078)
D1	2015 net profit	-	-	-	-	133,807	-	-	-	133,807	-	133,807
D3	Other comprehensive profit/loss in 2015	-	-	-	-	(5,623)	(1,357)	3,831	-	(3,149)	-	(3,149)
D5	Total amount of comprehensive profit/loss in the period	-	-	-	-	128,184	(1,357)	3,831	-	130,658	-	130,658
E1	Capital injection	128,000	-	460,800	-	-	-	-	-	588,800	-	588,800
I1	Convertible corporate bond conversion	18,648	5,420	70,229	-	-	-	-	-	94,297	-	94,297
N1	Share-based payment transaction - employee share purchase right	-	-	12,323	-	-	-	-	-	12,323	-	12,323
N2	Share-based payment transaction - restricted employee entitlement to new shares	5,640	-	23,406	-	-	-	-	(24,855)	4,191	-	4,191
Z1	Balance on December 31, 2015	$712,049	$5,420	$912,988	$27,865	$128,184	$7,567	$3,831	$(24,855)	$1,773,049	$-	$1,773,049
A1	Balance on January 1, 2016	$712,049	$5,420	$912,988	$27,865	$128,184	$7,567	$3,831	$(24,855)	$1,773,049	$-	$1,773,049
	2015 earnings distribution											
B1	Appropriate legal reserve	-	-	-	13,381	(13,381)	-	-	-	-	-	-
B5	Common stock - cash dividend	-	-	-	-	(114,803)	-	-	-	(114,803)	-	(114,803)
D1	Net Profit in 2016	-	-	-	-	146,601	-	-	-	146,601	(5,752)	140,849
D3	Other comprehensive profit/loss in 2016	-	-	-	-	(767)	(39,187)	(3,831)	-	(43,785)	(5,249)	(49,034)
D5	Total amount of comprehensive profit/loss in the period	-	-	-	-	145,834	(39,187)	(3,831)	-	102,816	(11,001)	91,815
I3	Certificate of Entitlement to New Shares form Convertible Bond Conversion	5,420	(5,420)	-	-	-	-	-	-	-	-	-
M7	Changes in equity of ownership of subsidiaries	-	-	2,418	-	-	-	-	-	2,418	-	2,418
N2	Share-based payment transaction - restricted employee entitlement to new shares	-	-	-	-	-	-	-	9,682	9,682	-	9,682
O1	Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	39,385	39,385
Z1	Balance on December 31, 2016	$717,469	$-	$915,406	$41,246	$145,834	$(31,620)	$-	$(15,173)	$1,773,162	$28,384	$1,801,546

(Please refer to the notes to the consolidated financial statements)

Chairman: Lin, Yan-Shen eneral Manager:Lin, Yan-Shen Accounting Manager: Teng, Yuan-Chang

United Orthopedic Corporation and its subsidiaries
Consolidated Cash Flow Statement
January 1 to December 31, 2016 and 2015

Unit: NT$1,000

Code	Item	2016 Amount	2015 Amount	Code	Item	2016 Amount	2015 Amount
AAAA	Cash flow from operating activities:			A33100	Interest income received	3,775	2,016
A10000	Current net profit before tax	$158,712	$165,770	A33500	Income Tax Paid	(32,039)	(24,271)
A20000	Adjustment items:			AAAA	Net cash inflow from operating activities	182,702	252,745
A20010	Income/expense items that do not affect cash flow:						
A20100	Depreciation expenses	97,273	117,193	BBBB	Cash flow from investment activities		
A20200	Amortization expense	6,271	6,724	B00600	Investment in debt instrument in non-active market	(235)	-
A20300	Doubtful accounts appropriation (reversal)	9,591	(581)	B00700	Dispose investment in debt instrument in non-active market	-	11,269
A20400	Net benefit of the financial liabilities at fair value through profit and loss	-	(1,371)	B01800	Acquisition of the investment using equity method	(337,677)	-
A20900	Interest Expense	5,575	10,770	B02300	Dispose daughter company	17,697	-
A21200	Interest Income	(3,867)	(1,978)	B02700	Acquisition of property, plant and equipment	(364,697)	(207,933)
A21900	Share-based payment remuneration cost	9,682	16,514	B02800	Real property, plant, and equipment punishment	11	1,410
A22300	Share of the profit and loss of the affiliated enterprises and joint ventures using equity method	13,207	-	B03700	Increases in refundable deposits	(1,380)	(4,398)
A22500	Profit and loss from disposition and retirement of property, plant and equipment	301	(54)	B04500	Intangible assets acquired	(29,832)	(919)
A23100	Gain on disposal of investments	(7,335)	-	B06800	Decreases (increases) in other non-current assets	(9,179)	1,341
A24000	Gain on realized sales	(31,816)	-	BBBB	Net cash outflow from investing activities	(725,292)	(199,230)
A29900	Other income	(19,105)	-				
A30000	Changes in assets and liabilities related operating activities			CCCC	Cash from financing activities		
A31130	Increases in bills receivable	(2,594)	(105)	C00100	Increases in short-term loans	322,786	-
A31150	Increases in accounts receivable	(43,750)	(15,454)	C00200	Decreases in short-term loan	-	(8,255)
A31160	Accounts receivable - decreases in related parties	111,154	-	C00500	Increases in short-term notes and bills payable	50,000	-
A31180	Decreases (increases) in other accounts receivable	(4,617)	3,862	C01600	Long-term loans borrowed	7,478	-
A31190	Other accounts receivable - increases in related parties	(3)	-	C01700	Long-term loans repaid	-	(72,868)
A31200	Increases in inventories	(81,853)	(80,202)	C03000	Increases in guarantee deposits	-	2,453
A31220	Decreases (increases) in prepayment	(7,707)	8,966	C04500	Cash dividend payout	(114,803)	(68,078)
A31240	Decreases in other current assets	(2,564)	349	C04600	Capital injection	-	588,800
A32130	Increases (decreases) in bills payable	(1,640)	1,771	C05600	Interest Paid	(5,312)	(7,939)
A32150	Increases (decreases) in accounts payable	(14,663)	12,173	C05800	Changes in non-controlling equity	39,385	-

A32160	Accounts payable - decreases in related parties	(30,940)	-	CCCC	Net cash inflow from financing activities	299,534	434,113
A32180	Increases in other payables	52,151	42,552				
A32190	Other payables - increases in related parties	-	-				
A32230	Increases (decreases) in other current liabilities	5,192	(9,598)	DDDD	Impacts on cash and cash equivalents from changes in exchange rates	(10,455)	4,774
A32240	Decreases in net defined benefit liability	(5,689)	(2,301)	EEEE	Increases (decreases) in cash and cash equivalents as of current period	(253,511)	492,402
A33000	Cash inflow generated by operation	210,966	275,000	E00100	Including cash and cash equivalents of disposition group held for sale	-	(49,926)
				E00200	Balance of Cash and Cash Equivalents, Beginning of Year	731,437	288,961
					Balance of Cash and Cash Equivalents, End of Year	$477,926	$731,437

(Please refer to the notes to the consolidated financial statements)

Chairman: Lin, Yan-Shen General Manager: Lin, Yan-Shen Accounting Manager: Teng, Yuan-Chang

1. Company Profile

The United Orthopedic Corporation ("the Corporation") was established on March 5, 1993. Its primary operations include research, development, production, manufacturing, sales of orthopedic implants and orthopedic surgical instruments, manufacturing equipment, special metal and plastics material, as well as import/export of the aforementioned products.

The Corporation's common shares were publicly listed on the Taipei Exchange (TPEx) on July 5, 2004, and the transactions began on September 29, 2004. Its registered office and the main operational base is located at No. 57, Yuanqu 2nd Rd., East Dist., Hsinchu City, Taiwan (R.O.C.).

2. Approval date and procedures for the financial statements

The consolidated financial statements of the Corporation and its subsidiaries (“the Group”) for 2016 and 2015 were authorized for issue by the Board of Directors on March 7, 2017.

3. Application of New and Amended International Financial Reporting Standards and Interpretations

1.International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”), but not yet adopted by the Group at the date of issuance of the Group’s financial statements are listed below:

(1) IAS 36 "Impairment of Assets" (Amendment)

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been assessed or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been evaluated when an impairment loss has been considered or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions made in its evaluation. The amendment is effective for the fiscal year beginning on or after January 1, 2014.

(2) IFRIC 21 “Levies”

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies accounted for in accordance with IAS 37 “Provisions, Contingent

Liabilities and Contingent Assets" and for those where the timing and amount of the levy is certain). The interpretation is effective for the fiscal year beginning on or after January 1, 2014.

(3) IAS 39 "Financial Instruments: Recognition and Measurement" (Amendment)

Under the amendment, there is no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The interpretation is effective for the fiscal year beginning on or after January 1, 2014.

(4) IAS 19 "Employee Benefits" (Defined benefit plans: employee contributions)

The amendments apply to contributions from employees or third parties to define benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment is effective for the fiscal year beginning on or after July 1, 2014.

(5) Improvements to International Financial Reporting Standards (2010–2012 cycle)

IFRS 2 "Share-based Payment"
The annual improvements amend the definitions of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendment prospectively applies to share-based payment transactions for which the grant date is on or after July 1, 2014.

IFRS 3 "Business Combinations"
The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 Provisions, Contingent Liabilities and Contingent Assets or other IFRSs as appropriate", other contingent consideration not within the scope of IFRS 9 shall be evaluated at fair value on each reporting date and changes in fair value shall be shown in profit or loss; (3) amending the classification requirements of IFRS 9 Financial Instruments to clarify that contingent consideration that is a financial asset or financial liability can only be evaluated at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after July 1, 2014.

IFRS 8 "Operating Segments"
The amendments require an entity to disclose the judgments made by the management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliation of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendment is effective for the fiscal year beginning on or after July 1, 2014.

IFRS 13 "Fair Value Measurement"

The amendment to the Basis for Conclusions of IFRS 13 says that when deleting paragraph B5.4.12 of IFRS 9 Financial Instruments and paragraph AG79 of IAS 39 Financial Instruments: Recognition and evaluation as consequential amendments from IFRS 13 Fair Value Measurement, the IASB did not intend to change the assessment requirements for short-term receivables and payables.

IAS 16 "Property, Plant and Equipment"

The amendment clarifies that when an item of property, plant and equipment is revalued, the accumulated depreciation on the date of revaluation is adjusted until it equals the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for the fiscal year beginning on or after July 1, 2014.

IAS 24 "Related Party Disclosures"

The amendment says that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is considered a related party of the reporting entity. The amendment is effective for the fiscal year beginning on or after July 1, 2014.

IAS 38 "Intangible Assets"

The amendment says that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for the fiscal year beginning on or after July 1, 2014.

(6) Improvements to International Financial Reporting Standards (2011–2013 cycle)

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

The amendment clarifies that an entity, in its first IFRS financial statements, has the choice of applying an existing and currently effective IFRS or a new or revised IFRS early that is not mandatory as yet (provided that the new or revised IFRS permits early application).

IFRS 3 "Business Combinations"

This amendment says that paragraph 2(a) of IFRS 3 Business Combinations disallows the formation of all types of joint agreements as defined in IFRS 11 of the Joint Arrangements from the scope of IFRS 3; the exception applies only to the financial statements of the joint venture or the joint operation itself. The amendment is effective for the fiscal year beginning on or after July 1, 2014.

IFRS 13 "Fair Value Measurement"

The amendment clarifies that paragraph 52 of IFRS 13 includes an exception from assessing the fair value of a group of financial assets and financial liabilities on net basis. This amendment clarifies that this portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and assessment or IFRS 9 Financial Instruments regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. The amendment is effective for the fiscal year beginning on or after July 1, 2014.

IAS 40 "Investment Property"

The amendment deals with the association between IFRS 3 and IAS 40 when classifying property as investment or owner-occupied property; whena specific transaction meets the conditions of the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property, separate application is required for both standards independent of each other. The amendment is effective for the fiscal year beginning on or after July 1, 2014.

(7) IFRS 14 "Regulatory Deferral Accounts"

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation as per their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effective of rate regulation must be presented separately from other items. IFRS 14 is effective for the fiscal year beginning on or after January 1, 2016.

(8) IFRS 11 “Joint Arrangements” (Accounting for Acquisition of Interest in Joint Operations)

The amendments provide new guidelineson accounting the acquisition of an interest in a joint business operation. The amendments require the entity to apply all the rules of business combination accounting in IFRS 3 “Business Combinations”, and other IFRS (which do not conflict with the guidelines in IFRS 11), to the extent of shares acquired in a joint operation. The amendment also requires certain disclosures. The amendment is effective for the fiscal year beginning on or after January 1, 2016.

(9) IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"—Interpretation of Acceptable Methods of Depreciation and Amortization

The amendment states that the use of revenue-based methods to calculate depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than economic benefits embodied in the asset, such as selling and change in sales volumes or prices. The amendment also states that revenue is generally presumed to be an inappropriate basis for assessing the consumption of economic benefits embodied in an intangible asset. (This presumption, however, can be rebutted under certain limited circumstances.) The amendment is effective for the fiscal year beginning on or after January 1, 2016.

(10) IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"—Agriculture: Bearer Plants

The IASB decided that accounting of bearer plants should be similar to property, plant and equipment in IAS 16 Property, Plant and Equipment, as their operation is similar to one of manufacturing. Consequently, the amendments should be considered within the scope of IAS 16, and the produce growing on the bearer plants will fall within the scope of IAS 41. The amendment is effective for the fiscal year beginning on or after January 1, 2016.

(11) IAS 27 "Separate Financial Statements"—Equity Method in Separate Financial Statements

The IASB restored the option of equity under IAS 28 to account for investments in subsidiaries and associates in an entity's separate financial statements. In 2003, the equity option was removed from the options. This amendment removes the only difference between separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions. IFRS 14 is effective for the fiscal year beginning on or after January 1, 2016.

(12) Improvements to International Financial Reporting Standards (2012-2014 cycle)

IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"
The amendment clarifies that a change in the method of disposal of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered as a new plan of disposal, rather it is a continuation of the original plan. The amendment also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendment is effective for the fiscal year beginning on or after January 1, 2016.

IFRS 7 "Financial Instruments: Disclosures"
The amendment states that a service contract with a fee constitutes involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset not considered in its entirety under IFRS 7 Financial Instruments: Disclosures required. The amendment also states that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities required to be included in the condensed interim financial report would depend on the requirements under IAS 34 Interim Financial Reporting. The amendment is effective for the fiscal year beginning on or after January 1, 2016.

IAS 19 "Employee Benefits"
The amendment states that under IAS 19.83 the market depth of high-quality corporate bonds will be assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendment is effective for the fiscal year beginning on or after January 1, 2016.

IAS 34 "Interim Financial Reporting"
The amendment clarifiesthe meaning of "elsewhere in the interim financial report" under IAS 34; the interim disclosures must either be incorporated in the interim financial statements or by cross-reference in them and wherever included within the larger interim financial report. The other information in the interim financial report should be available to all users

simulateneouslyas of the interim financial statements. The amendment is effective for the fiscal year beginning on or after January 1, 2016.

(13) IAS 1 "Presentation of Financial Statements" (Amendment)

The amendments state that (1) an entity must not lower clarity in financial statements by including irrelevant and immaterial information . When a standard requires specific disclosure, the information must be assessed if it is material and, if its disclosure is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) there should be flexibility in the notes presented in financial statements as well as clarity and comparability, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered not useful in illustrating the significant accounting policies, and (5) the share of OCI of associates and joint ventures for using the equity must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendment is effective for the fiscal year beginning on or after January 1, 2016.

(14) IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IAS 28 "Investments in Associates and Joint Ventures"—Investment Entities: Application of the Consolidation Exception

The amendments state that (1) when the investment entity measures all components of its subsidiary at fair value it is exempted from presenting consolidated financial statements as applied to a parent entity that is a subsidiary of an investment entity, (2) only a subsidiary that itself is not an investment entity and provides support services to the investment entity is consolidated when all other subsidiaries of the investment entity are evaluated at fair value, and (3) when using the equity method, the investment entity associate or joint venture should evaluate its interest in its subsidiaries at fair value. The amendment is effective for the fiscal year beginning on or after January 1, 2016.

The above standards and interpretations of IASB have been approved by FSC and are applicable for fiscal years beginning on or after January 1, 2017. The Group evaluates that the new standards, amendments or interpretations have no material impact on the Group.

2. Standards, amendments or interpretations issued by IASB but not yet approved by FSC as of the date of issuance of the Group’s financial statements are listed below:

(1) IFRS 15 "Revenue from Contracts with Customers"

The core principle of the new Standard is to reflect the consideration to which the company is entitled in exchange for the transfer of goods or services to customers.. Companies adopting the core principle to recognize revenue shall

(a) Step 1: Identify the Contract(s) with a Customer
(b) Step 2: Identify the Performance Obligations in the Contract
(c) Step 3: Determine the Transaction Price
(d) Step 4: Allocate the Transaction Price to the Performance Obligations in the Contract
(e) Step 5: Consider Revenue When (or As) the Entity Satisfies a Performance Obligation

Such disclosures provide sufficient information to users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the fiscal year beginning on or after January 1, 2018.

(2) IFRS 9 "Financial Instruments"

The final version of IFRS 9 issued byIASB combines classification and measurement, the credit loss impairment model and hedge accounting. The standard will replace IAS 39 of the Financial Instruments: Recognition and assessment and all previous versions of IFRS 9 Financial Instruments,which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting.

Classification and measurement: Financial assets are evlauated at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial liabilities are evaluated at amortized cost or fair value through profit or loss. Furthermore, 'own credit risk' adjustments are not allowed in profit or loss.

Impairment: Expected credit loss model permits evaluation of impairment. Entities have to recognize either 12-month or lifetime credit losses, when there is a significant increase in credit risk since initial assessment.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and the effectiveness of hedge is measured based on hedge ratio.

The new standard is effective for the fiscal year beginning on or after January 1, 2018.

(3) IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"—Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments resolve inconsistencies between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts the gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest of other equity holders in these ventures. IFRS 10 requires recognition of full profit or loss on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss from the sale or contribution of assets that constitutes a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

In addition, though the effective date of this amendment has been announced, advanced adoption to this amendment is permitted.

(4) IFRS 16 "Leases"

The standard provides a single lessee accounting model requiring lessees to recognize assets and liabilities for most leases in the balance sheets. Moreover, lessors continue to classify leases as operating or finance. The standard is effective for the fiscal year beginning on or after January 1, 2019.

(5) IAS 12 Recognition of deferred tax assets for unrealised losses (Amendment)

The amendment mentions the methods accepted for deferred tax assets derived from unrealized losses. The amendment is effective for the fiscal year beginning on or after January 1, 2017.

(6) Disclosure initiative (amendment to IAS 7 "Statement of Cash Flows")

The amendments refer to the increased reconciliation at the beginning and at the end of the period with respect to the fundraising activities relating to liabilities. The amendment is effective for the fiscal year beginning on or after January 1, 2017.

(7) Interpretation of IFRS 15 "Revenue from Contracts with Customers"

The amendment mainly clarifies the methods of identifying contractual obligations, how to determine a company as a principal or an agent, and how to determine authorized income at a specific point of time or progressively recognized. The amendment is effective for the fiscal year beginning on or after January 1, 2018.

(8) Amendment to IFRS 2 "Share-based Payment"

The amendment clarifies (1) cash-based share-transaction payment will not be considered when estimating the stock appreciation rights on the assessment date if there are vesting conditions (service or non-market price performance condition) other than the market price condition. Vesting conditions should include the assessment of liability by adjusting the increase in volumes of equity, (2) if the taxation law and regulations sugest settlement through equity instruments, tax deductibles, and such agreement, other than the settlement features, the rest can comply with equity instrument-settled equity-based payment transaction, and then such agreement belongs to equity instrument-settled transaction of, and (3) if the cash-settled equity-based payment transaction relating clauses are revised to comply with the equity instrument-settled equity-based payment transaction, then from the revision date, it should be changed to the equity instrument-settled equity-based payment transaction. On the date of revision,, the aggregated fair value of equity instruments from products or services should be considered in equity. In respect of liabilities in cash-based equity-transaction payment on the revision date, the difference between the liabilities and equity should be shown in profit or loss. The amendment is effective for the fiscal year beginning on or after January 1, 2018.

(9) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendment helps resolve the issue arising from the difference in the effective date of IFRS 9 "Financial Instruments" (January 1, 2018) and the new insurance contract standard (no earlier than 2020) to be published by IASB. The amendment allows an enterprise to lower specific impact when issuing the insurance contract within the application scope of IFRS 4 before IFRS 9 "Financial Instruments" and the new insurance contract standard takes effect. The amendment proposed two approaches: (i) overlay and (ii) deferral. The overlay approach enables entities to eliminate the accounting impact of profit or loss while applying IFRS 9 prior to the effective date of new insurance contract standards. The deferral approach enables qualified entities to select deferral IFRS 9 before 2021 (i.e., applying IAS 39 before new insurance contract standards take effect).

(10) Transfers of Investment Property (Amendments to IAS 40 "Investment Property")

The amendment added regulations relating to transfer of investment property, and states that when the property complies or no longer complies with the definition of the investment property, and has the proof of change of purpose, entities shall transfer the property as investment property or out of it, and the proof of intention to change from the administrative authority, instead of change of purpose. The amendment is effective for the fiscal year beginning on or after January 1, 2018.

(11) IFRS Annual Improvements 2014-2016

IFRS 1 "First-time Adoption of International Financial Reporting Standards"
The revised amendment added transitional provisions for revision of partial standards, and removed Appendix E from IFRS 1 short-term exemptions for first timers. The amendment is effective for the fiscal year beginning on or after January 1, 2018.

IFRS 12: Disclosure of Interests in Other Entities
The amendment states that the disclosures required in IFRS 12 (with the exception of B10 to B16) also apply to interests held for sale and discontinued operations in accordance with IFRS 5. The amendment is effective for the fiscal year beginning on or after January 1, 2017.

IAS 28 - Investments in Associates and Joint Ventures
The amendment statesthat the investment in the associate or joint venture is held by, or is held indirectly through, venture capital organizations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds may be assessed at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. In addition, if the enterprise is not an investment entity, and owns equities of the associate or joint venture, it should apply the fair value method to maintain the associate or joint venture' equity in its subsidiary, by each associate or joint venture. The amendment is effective for the fiscal year beginning on or after January 1, 2018.

(12) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

The interpretation states that on applying Paragraph 21 and 22 of IAS 21 "The Effects of Changes in Foreign Exchange Rates", it is required to determine the rate of exchange at the date of the transaction for non-currency assets or liabilities relating to the original assessment of assets, expenses or income (or any part), and foreign currency derecognition and payment (receipt) of advance. The transaction date refers to the date of non-currency assets or non-currency liabilities resulting from the entity's original recognition in foreign currency payment (receipt) of advance. If there are multiple receipts or payments of advance, the transaction date for each receipt or payment of advance can be decided by the individual. The interpretation is effective for the fiscal year beginning on or after January 1, 2018.

The above standards or interpretations have been announced by IASB, but are yet to be approved by the FSC. The actual application date should follow the FSC regulations. The Group currently is evaluating the potential impact of the new or amended standards, or interpretations as per points (4)~(7), but is unable to reasonably estimate their impact at this time;, the rest of the new standards, or interpretations have no significant impact on the Group.

4. Description of Significant Accounting Policies

1. Statement of compliance

The consolidated financial statements of the Group for the years 2016 and 2015 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and TIFRS as endorsed by the FSC.

2. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. These statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

3. Basis of consolidation

Preparation principle of consolidated financial statements

When the Company is exposed to varied remunerations participated by the investees or is entitled to the varied remunerations and is capable of affecting the remunerations through the authority over the investees, the controlling is achieved. Especially when the company owns the following three controlling elements, the investees fall under the company control:

(1) The authority over the investees (i.e., being able to grant the ability to dominate the existing rights of activities),
(2) The risk exposure and rights of varied remunerations participated by the investees, and
(3) Using the authority over the investees to affect their ability of remuneration amounts.

When the Company owns the voting rights or similar rights fewer than the investees directly or indirectly, the Company considers relevant facts and conditions to evaluate whether the authority over the investees is still valid, including:

(1) Contract agreements with the holders of other voting rights of the investees
(2) Rights granted from other contract agreements
(3) Voting rights and potential voting rights

When the facts and conditions reveal that one or multiple of the three controlling elements have changed, the company shall re-evaluate whether the investees are still under the company's control.

Subsidiaries are fully consolidated from the acquisition date (being the date on which the Group obtains control), and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are written off in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

The total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Group loses control of a subsidiary, it:

(1) Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
(2) Derecognizes the carrying amount of any non-controlling interest;
(3) Recognizes the fair value of the consideration received;
(4) Recognizes the fair value of any investment retained;
(5) Recognizes any surplus or deficit in profit or loss; and
(6) Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investment company name	Subsidiary name	Main Business	Percentage of ownership 12/31/2016	Percentage of ownership 12/31/2015	Remark
The Corporation	United Medical (B.V.I.) Corporation	Sales and investment	100.00%	100.00%	
The Corporation	UOC America Holding Corporation	Sales and investment	100.00%	100.00%	
The Corporation	UOC Europe Holding SA	Sales and investment	75.00%	-	Note 2
The Corporation	United Biomech Japan	Sales	51.00%	-	Note 3
United Medical (B.V.I.) Corporation	Lemax Co., Ltd.	Investments	100.00%	100.00%	
Lemax Co., Ltd.	United Medical Co., Ltd.	Manufacture and sales	-	100.00%	Note 1
Lemax Co., Ltd.	United Medical Instrument Co., Ltd.	Sales	-	100.00%	Note 1
Lemax Co., Ltd.	United Medical Technology (ShangHai) Co.,Ltd.	Sales	-	100.00%	Note 1
UOC America Holding Corporation	UOC USA, Inc.	Sales	100.00%	100.00%	
UOC Europe Holding SA	UOC (Suisse) SA	Sales	100.00%	-	Note 4
UOC Europe Holding SA	UOC (France)	Sales	100.00%	-	Note 5

Note 1: In Q1 2016, the Group sold its sub-subsidiaries: United Medical Co., Ltd., United Medical Instrument Co., Ltd. and United Medical Technology (Shanghai) Co.,Ltd. to its related party - Shinva United Orthopedic Corporation; see Note 7 for related disposal.

Note 2: In Q2 2016, the Group invested UOC Europe Holding SA. By the end of December 31, 2016, the aggregated remittance for investment has reached CHF 1,500 thousand (NT$50,420 thousand).

Note 3: In Q3 2016, the Group invested United Biomech Japan. By the end of December 31, 2016, the aggregated remittance for investment has reached JPY 76,500 thousand (NT$23,983 thousand).

Note 4: In Q3 2016, the Group invested UOC (Suisse) SA through UOC Europe Holding SA. By the end of December 31, 2016, the aggregated remittance for investment has reached CHF 200 thousand (NT$6,865 thousand).

Note 5: In Q3 2016, the Group invested UOC (France) through UOC Europe Holding SA. By the end of December 31, 2016, the aggregated remittance for investment has reached EUR 200 thousand (NT$7,442 thousand).

4. Foreign currency transactions

The functional currency of the Group's consolidated financial statements is NT$. Each entity in the Group shall determine its functional currency, and use it to prepare its financial statements.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the functional currency at the reporting date's closing rate of exchange. Non-monetary items measured at fair value in a foreign currency are converted using the exchange rates at the date when the fair value is determined. Non-monetary items assessed at historical cost in a foreign currency are converted using the exchange rates as on the dates of initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss account in the period in which they arise except for the following:

(1) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

(2) Foreign currency items within the scope of IAS 39 Financial Instruments: Recognition and assessment are accounted for based on the accounting policy for financial instruments.

(3) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is considered in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss of a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is shown in profit or loss account.

5.Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT$at the closing rate of exchange rate prevailing on the reporting date and their income and expenses are converted at an average rate for the period. The exchange differences arising on conversion are considered as part of other comprehensive income. On the disposal of a foreign property, its cumulative amount of the exchange differences considered in other comprehensive income and shown in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is assessed. The following are accounted for as partial disposal: the loss of control over a subsidiary of a foreign operation, associated enterprises of a foreign operation, or as disposals: reserved equities from a joint agreement including the financial assets of a foreign operation.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences considered in other comprehensive income is re-attributed to the non-controlling interest in that foreign operation. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences consideredin other comprehensive income is reclassified to profit or loss account.

Any goodwill and any fair value adjustment to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation is treated as asset and liabilityof the foreign operation and expressed in its functional currency.

6. Current and non-current distinction

An asset is classified as current when any of following scenarios are applicable, and all other assets are classified as non-current:

(1) The Group expects to realize the asset, or intends to sell or use it, in its normal operating cycle.
(2) The Group holds the asset primarily for the purpose of trading.
(3) The Group expects to realize the asset within twelve months after the reporting period.
(4) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current when any of following scenarios apply, and all other liabilities are classified as non-current:

(1) The Group expects to settle the liability in its normal operating cycle.
(2) The Group holds the liability primarily for the purpose of trading.
(3) The liability is due to be settled within twelve months after the reporting period.
(4) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. The terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

7. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value (include fixed-term deposits that have maturity of 12-month from the date of acquisition).

8. Financial instruments

Financial assets and liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities within the scope of IAS 39 Financial Instruments: Recognition and assessment are recognized initially at fair value plus or minus (in the case of investments not at fair value through profit or loss, directly attributable to transaction costs).

(1) Financial assets

The Group accounts for regular way purchase or sales of financial assets on the trading date.

Financial assets of the Group are classified at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Group initially determines the classification of its financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated on initial assessment at fair value through profit or loss.

A financial asset is classified as held for trading if:

A. It is acquired or incurred principally for the purpose of selling or repurchase in the near term;
B. On initial recognition that it is part of a portfolio of identified financial instruments that are managed collectively for which there is evidence of a recent actual pattern of short-term profit-taking, or
C. It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss account; or a financial asset may be designated as at fair value through profit or loss account when doing so results in more relevant information, because either:

A. it eliminates or significantly reduces an assessment or recognition inconsistency; or
B. a group of financial assets, financial liabilities or both aremanaged and performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on its basis to the key management personnel.

Financial assets are assessed at fair value through profit or loss accountwith changes in value recognized in profit or loss account. Dividends or interest on financial assets are considered at fair value in profit or loss account (including those received during the period of initial investment).

If financial assets are not actively traded on the market and their fair value cannot be reliably assessed, then they are classified as financial assets assessed at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

<u>Financial assets available for sale</u>

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are shown in profit or loss account. Subsequent assessment of available-for-sale financial assets at fair value is considered in equity until the investment is derecognized, at which time the cumulative gain or loss is shown in profit or loss account.

If equity instrument investments are not quoted in an active market and their far value cannot be reliably assessed, then they are classified as financial assets assessed at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as on the reporting date.

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group on initial assessmeNT$esignates as available for sale, classified at fair value through profit or loss account, or those from which the holder may not recover all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or bond investments for which no active market exists. After initial assessment, such financial assets are subsequently shown at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by considering any discount or premium on acquisition and fee or transaction costs. The effective interest method of amortization is shown in profit or loss.

<u>Impairment of financial assets</u>

The Group assesses on each reporting date whether there is any evidence of impairement of financial asset other than the financial assets assessed at fair value in profit or loss account. A financial asset is deemed impaired if, and only if, there is evidence of it as a result of one or more loss events after the initial assessment of the asset and that loss impacts the estimated future cash flows of the financial asset. The carrying amount of the impaired financial asset, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized as profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss.

Other losses include:

A. Significant financial difficulty of the issuer or obligor; or
B. A breach of contract, such as a default or delinquency in interest or principal payments; or
C. It there is probabilityof the borrower going bankrupt or other financial reorganisation; or
D. The disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables assessed at amortized cost, the Group first assesses for evidence of impairment for financial assets that are individually significant, or collectively when not significant individually. If the Group determines that no evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is evidence that an impairment loss has been incurred, the amount of the loss is assessed as the difference between the assets carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the original effective interest rate of the financial assets. If a loan has a variable interest rate, the discount rate for assessing any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, applying the rate of interest used to discount the future cash flows to assessthe impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was observed, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss account.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss—assessed as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously shown in profit or loss account—is removed from the other comprehensive income and shown in profit or loss account. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are shown directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously shown in profit or loss account. Future interest income continues to be accrued based on the reduced carrying amount of the asset employing the rate of interest used to discount the future cash flows for assessing the impairment loss. The interest income is shown in profit or loss account. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was shown in profit or loss account, it is reversed.

Derecognition of financial assets

A financial asset is derecognized when:

A. The rights to receive cash flows from the asset have expired.
B. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
C. The Group has neither transferred nor retained all the risks and rewards of the asset, but has transferred the control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been shown in other comprehensive income is shown in profit or loss.

(2) Financial liabilities and equity

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Hybrid instruments

The convertible bonds issued by the Group are confirmed with the financial liabilities and equity composition elements in accordance with the contract clauses. With respect to the issued convertible bonds, prior to the differentiation of equity elements, it is required to evaluate whether the embedded buy/sell right economic characteristics and risks are closely related to the primary debt products.

Regarding the liability which is not involved in derivatives, the fair value should be assessedby the market interest rate evaluation with the equivalent features and non-convertible bonds. On conversion or prior to redemption and clarification, the partial amount is classified as the amortized financial liability assessed at cost. Regarding the embedded financial instruments which are not closely related to risks of other main contract economic characteristics (e.g., the execution price for embedded buy option and redeem option can barely equal to amortized cost of each execution date of liability products after confirmation), except from the equity element, they should be classified as liability elements, and assessed at fair value in profit or loss account during the subsequent period. The amount of equity elements is determined by fair value of convertible bonds minus liabilities, and its carrying amount will not be reassessed during the following accounting period. If the issued convertible bonds have no equity elements, IAS 39 "Financial Instruments: Recognition and Measurement" hybrid instruments applies.

Based on the proportion of liability and equity composition amortized from the original assessmentof convertible bonds, the transaction costs will be amortized to the composition of liability and equity.

When the holders of convertible bonds request to exercise their conversion right before thedue date, the carrying amount of the liability elements shall be adjusted to the those on the conversion, serving as the account posting basis of issuing ordinary shares.

Financial liabilities

Financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and assessmentare classified as financial liabilities at fair value through profit or loss or financial liabilities assessed at amortized cost on initial assessment.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated on initial assessment at fair value.

A financial liability is classified as held for trading if:

A. It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
B. On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
C. It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss account or a financial liability may be designated at fair value if it helps get more relevant information, because:

A. it eliminates or significantly reduces the assessment of inconsistency; or

B. a group of financial assets, financial liabilities or both are managed and theirperformance evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid is considered in profit or loss.

If the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are assessed at cost on balance sheet and carried at cost as on the reporting date.

Financial liabilities at amortized cost

Financial liabilities assessedat amortized cost include interest bearing loans and borrowings that are subsequently assessed using the effective interest rate method after initial assessment. Gains and losses are considered in profit or loss when the liabilities are not considered as well as through the effective interest rate method of amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Financial liabilities not taken into account

A financial liability is not taken into accountwhen the obligation under the liability is discharged or canceled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification does not consider the original liability and the assessment of a new liability, and the difference in the respective carrying amounts and the consideration paid (including any non-cash assets transferred or liabilities assumed), is shown in profit or loss account.

(3) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the assessed amounts and there is an intention to settle the amount on a net basis, or to realize the assets and settle the liabilities simultaneously.

9. Derivative financial instrument

The Group uses derivative financial instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss account (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative financial instruments are initially considered at fair value on the date on which a derivative contract is entered into and are subsequently assesed at fair value. Derivatives are considered as financial assets when the fair value is positive and as financial liabilities when it is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss account, except for the effective portion of cash flow hedges, which is considered in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are assessed at fair value with changes in fair value assessed in profit or loss account.

10. Fair Value assessment

Fair value refers to the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at an assessment date. Fair value assessment assumes that the transactions of asset selling and liability transferring occur in one of the following markets:

(1) Primary market of the asset or liability, or
(2) If no primary market is applicable, consider the most beneficial market of the assets or liability.

Primary or most beneficial markets must be accessible by the company to make transactions.

Fair value assessment of assets and liabilities adopts the assumption used by market participants in valuing assets or liabilities, which is seeking the best economic bemefits.

Fair value assessment of non-financial assets considers the ability to generate economic benefits demonstrated by market participants in making the best use of the assets, or by selling to another market participant, who will make the best use of the assets.

The company adopts the valuation technique applicable under related circumstances and with a sufficiency of data to measure fair value and maximize the use of observable and unobservable entries .

11. Inventories

Inventories are assessed at lower level of cost and net realizable value.

Cost refers to the expenses to make inventories achieve available-for-sale or available-for-production status and their locations.

Raw material—consider actual cost of purchase; adopt weighed average method.

Finished goods and work in progress—including direct materials, labor and fixed production expenses amortized by normal productivity, but excluding the cost of loan.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

12. Non-current assets held for sale and discontinued operations.

Non-current assets held for sale or disposal refer to those can be sold under current circumstance based on normal conditions or business protocols, and can be sold within one year. These assets are assessed by the lower of the carrying amount and less fair disposal cost.

During the reporting period and the previous reporting year, the income and expenses of discontinued operations are separately reported after-tax and continued operations in the comprehensive income statements. Even after the Group has disposed of it subsidiaries, non-controlling equity is still reserved. The after-tax profit or loss of discontinued operation only shall be listed in the comprehensive income statements.
Once property, plant and equipment, and intangible assets are rassessed as held for sale, no depreciation or amortization is applicable.

13. Investments accounted by using the equity method

The Group's investment in its associate is accounted by using the equity method other than those that meet the criteria as held for sale. An associate is an entity over which the Group has significant influence. A joint venture means the Group possesses the right over net assets of a joint agreement (joint controller).

Under the equity method, the investment in the associate or joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recorded, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's related interest in the associate or joint venture.

When changes in the net assets of an associate or joint venture take place and not those that are considered in profit or loss account or other comprehensive income and do not affect the Group's percentage of ownership interests in the associate, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified as profit or loss on a pro-rata basis at the time of disposing of the associate or joint venture.

When the associate or joint venture issues new stock, and the Group's interest in an associate or joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is shown in Additional Paid in Capital and Investment in associate. When the interest in the associate or joint venture is reduced, the cumulative amounts previously shown in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus shown is reclassified to profit or loss account on a pro-rata basis when the Group disposes of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as that of the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired in accordance with IAS 39 Financial Instruments: Recognition and assessment. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and shows the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Group estimates:

(1) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds on the ultimate disposal of the investment; or
(2) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not separately shown, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

On loss of significant influence over the associate or joint venture, the Group assesses any retaining investment at its fair value. Any differences between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are shown in profit or loss. Additionally, when investments in the associate become investments in the joint venture, or vice versa, the Group will continue to adopt the equity method, instead of premeasuring the reserved equities.

14. Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the valuation criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of the property, plant and equipment are required to be replaced in intervals, the Group considers them as individual assets with specific useful life and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the relevant provisions of IAS 16 Property, plant and equipment. When a major inspection is performed, its cost is considered in the carrying amount of the plant and equipment as a replacement if thevaluation criteria are satisfied. All other repair and maintenance costs are considered in profit or loss as incurred.

Depreciation is calculated based on the following methods:

Depreciation of forging die of tooling equipment is calculated on a production basis.

Except for forging die of tooling equipment, rest of depreciation is calculated on a straight-line basis over the estimated economic life of the following assets:

Building and construction	3～50 years
Machinery equipment	10～15 years
Tooling equipment (except for forging die)	3～5 years
Transportation equipment	5 years
Information equipment	3 years
Other equipment	5 years
Leasehold improvements	Whichever one is shorter between leasing years and useful life

An item of property, plant and equipment and any significant part initially considered is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is shown in profit or loss account.

The assets' residual values, useful life and the methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

15. Lease

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are shown in profit or loss account.

A leased asset is depreciated over its useful life. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense by straight-line method over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and shown over the lease term on the same basis as of rental income. Rental revenue generated from operating lease is considered over the lease term using the straight line method. Contingent rents are shown as revenue in the period in which they are earned.

16. Intangible assets

Intangible assets acquired separately are measured on initial valuation at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial valuation, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs are not capitalized and expenditure is reflected in profit or loss account for the year in which the expenditure is incurred.

The useful life of intangible assets is assessed as either definite or indefinite.

Intangible assets with definite useful life are amortized over the useful economic life and assessed for impairment whenever there is an indication that they may be impaired. The amortization period and method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in the accounting estimates.

Intangible assets with indefinite useful life are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine if the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are shown in profit or loss when the asset is derecognized.

Intangible assets under development—R&D cost

Expense is considered when there are expenses on R&D. If the expenses of an individual project at the development phase meet the following conditions, they are consideredas intangible assets:

(1) The intangible asset of the development has reached the stage of technological feasibility and is available for use or sale.
(2) Intend to complete the asset and is ready for use or sale.
(3) The asset will generate future economic benefits.
(4) Have sufficient resources to complete the task.
(5) Expenses during the development phase can be assessed reliably.

The developmental expense of capitalization, after the original assessment, is valued at cost, i.e., the carrying amount is calculated by taking the cost to deduct the aggregated amortization and aggregated impairments. During the developmental period, the asset will undergo impairment tests on an annual basis. On its completion and reaching the stage of utility, it will be amortized over the period of its useful life.

Trademark and licensing rights

Trademark and licensing rights are amortized by straight-line method over the usage entitlement of 5–10 years.

Computer software

Computer software is amortized on a straight-line basis over the estimated useful life (1 to 5 years)

The Group's accounting policy on intangible assets:

	Intangible assets under development	Computer software	Trademark and licensing rights
Useful life	Finite	Finite	Finite
Use of amortization method	Amortized on a straight-line basis over the forecast sales period	Amortized on a straight-line basis over the estimated useful life	Amortized on a straight-line basis over the estimated useful life
Internal production or external acquisition	Internal production	External acquisition	External acquisition

17. Impairment of non-financial assets

The Group assesses at the end of each reporting period that if an asset in the scope of IAS 36 Impairment of Assets may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of the fair value of its or of the cash-generating unit (“CGU”) less selling cost and its value in use, and is determined for an individual asset, unless it does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the cost of an asset or CGU exceeds its recoverable amount, it is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made on each reporting date for any indication that previously assessedimpairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates its or the cash-generating unit’s recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset, which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash-generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of any indication of impairment. If an impairment loss is assessed, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units), then to the other assets of the unit (group of units) pro-rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in the profit or loss account.

18. Revenue recognition

Revenue is recognized to the extent that its economic benefits flows to the Group and the revenue can be reliably evaluated. Revenue is assessed at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is assessed:

<u>Sale of goods</u>

Revenue from the sale of goods is recognized when all the following conditions have been satisfied: the significant risks and rewards of ownership of the goods have passed to the buyer; neither continuing managerial involvement nor effective control over the goods sold have been retained; the amount of revenue can be assessed reliably; the economic benefits associated with the transaction will likely flow to the entity; and the costs incurred in respect of the transaction can be assessed reliably.

<u>Interest income</u>

For all financial assets assessed at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and shown in profit or loss account.

<u>Dividend income</u>

Revenue is recognized when the Group’s right to receive the payment is confirmed.

19. Loan costs

Loan costs are directly related to the assets from acquisition, construction or production, becoming part of the asset cost by capitalization. All the other loan costs are considered in expense occurring over the period. Loan costs include interest and other costs arising from capital borrowings.

20. Government grants

Government grants are considered where there is reasonable assurance that the grant is received and all attached conditions are complied with. Where the grant relates to an asset, it is considered as deferred income and added to income in equal amounts over the expected useful life of the related asset. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs intended to compensate.

Where the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and included in the statement of comprehensive income over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, their favorable effect interest is considered as additional government grant.

21. Post-employment benefit plan

The post-employment regulations for the company and domestic subsidiaries are applicable to all the employees hired through official procedures. The retirement fund is all managed by the Supervisory Committee of Labor Retirement Reserve and deposited in a special account for the retirement fund. The pension amount is deposited in the name of the Supervisory Committee of Labor Retirement Reserve, which is completely unconnected from the company and its domestic subsidiaries, hence the record is not included in the consolidated financial statements. The regulations governing retirement benefitsfor employees of foreign subsidiaries will comply with local law and regulations.

For the post-employment benefit plan regarding the defined contribution plan, the Company and its domestic subsidiaries' monthly contribution rate for employees' pension shall not be lower than 6% of the employees' monthly salary. The contribution amount is recognized in the expense of the current period. For the foreign subsidiaries, a specific percentage of contribution will be allowedin the expense account of the current period.

The post-employment benefit planof the defined contribution plan is recognized in the actuarial report by the end of the annual reporting period. Net defined benefit liability (asset) reassessmentincludes any changes in planned asset remuneration and its upper limit, and the net interest of net defined benefit liability (asset), as well as actuarial profit and loss are deducted. When net defined benefit liability (asset) is reassessed, it will be put under other comprehensive profit and loss, and immediately shown in reserved earnings. The earlier service cost is the changed value when the plan is revised or narrowed down and generate the current value of the defined benefit. Earlier occurrence of the following two events will be considered in the expense account:

(1) When the plan is revised or narrowed down, and
(2) When the Group recognizes related reorganization cost or resignation benefits.

The net interest of the net defined benefit liability (asset) is determined by the net defined benefit liability (asset) multiplied by the discount rate. Both were determined at the beginning of the annual reporting period including further consideration of changes in deposits and benefit payout for the net defined benefit liability (asset).

22. Share-based payment transactions

The cost of equity-settled transactions between the Group and its subsidiaries is considered based on the fair value of the equity instruments granted, which is determined by using an appropriate pricing model.

The cost of equity-based transactions is considered together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense on equity transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense considered at the beginning and at the end of that period.

No expense is considered for awards that do not ultimately vest. Except for equity- based transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-based transaction award are modified, the minimum expense considered is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is considered for any modification that increases the total fair value of the share-based payment transaction or is otherwise beneficial to the employee as assessedonthe date of modification.

Where an equity-based award is canceled, it is treated as if it vested on the date of cancelation, and any expense not yet considered for the award is taken into account immediately. This includes any award where the non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the canceled award, and designated as a replacement award on the date of grant, the canceled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of the outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The cost of restricted stocks issued is considered as salary expense based on the fair value of the equity instruments on the grant date together with a corresponding increase in other capital reserves in equity over the vesting period. The Group recognized the unearned employee salary which is a transitional contra equity account; the balance in the account will be consideredas salary expense over the passage of the vesting period.

23.Income tax

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current and deferred taxes.

<u>Current income tax</u>

Current income tax (assets) and liabilities for the current and prior periods are assessed at the end of the reporting period based on the amount expected to be recovered from or paid to the taxation authorities as per the tax rates and tax laws in force. Current income tax relating to items consideredin other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss account.

The 10% surtax on undistributed retained earnings is consideredas income tax expense in the subsequent year when the distribution proposal is approved at the Annual General Meeting.

Deferred income tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are considered for all taxable temporary differences, except:

(1) Where the deferred tax liability arises from the initial assessment of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (or loss);
(2) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and may not reverse in the foreseeable future.

Deferred tax assets are consideredfor all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that taxable profit maybe be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

(1) Where the deferred tax asset relating to the deductible temporary difference arises from the initial assessment of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit (or loss);
(2) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are considered only to the extent that the temporary differences might reverse in the foreseeable future and taxable profit will be available against which the temporary differences can offset.

Deferred tax assets and liabilities are measured at the tax rates valid in the year when the asset is realized or the liability is settled, based on tax rates and tax laws prevailing on the reporting date. The assessment of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items considered outside profit or loss is assessed outside profit or loss; deferred tax is considered in correlation with the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are assessed accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against the current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. Major sources of uncertainty in material accounting judgments, estimates, and assumptions

The preparation of the Group's consolidated financial statements requires the management to make judgments, estimates and assumptions that affect the revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Estimates and assumptions

The key assumptions concern the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The explanations are as follows:

1. Valuation of inventories

The estimation of inventory's net realizable value shall consider following conditions, impairment of actuarial, all or partial out of date or dropping selling price, when estimating the most reliable evidence of the available inventory net realizable value. See Note 6 for more details.

2. Post-employment benefit plan

The current value of pension and defined benefit obligation of post-employement benefit plan depend on the actuarial valuation. The actuarial valuation involves various assumptions including increase and decrease of discount rate and expected salary, etc. For more details about the assumptions made to measure pensions and defined benefit obligation, please see Note 6.

3. Share-based payment transactions

The Group assesses the cost of equity-based transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating the fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions on them. The assumptions and models used for estimating the fair value for share-based payment transactions are disclosed in Note 6.

4.Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group made provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. Such provisions are based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are considered for carryforward of all unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined is based on the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6 for more details on unrecognized deferred tax assets as of December 31, 2016.

6. Important accounting items

1. Cash and cash equivalents

	12/31/2016	12/31/2015
Cash on hand	$61	$167
Checks and demand deposits	302,719	592,336
Time deposits	175,146	188,860
Non-current assets held for sale	-	(49,926)
Total	$477,926	$731,437

2. Financial assets measured at cost - non-current

	12/31/2016	12/31/2015
Available-for-sale financial assets - stocks	$2,850	$2,850

(1) The fair value of the above investments in unlisted entities are not reliably measurable as the variability in the range of reasonable fair value measurements is significant for the investment and the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value. Therefore these investments are measured at cost.

(2) Financial assets measured at cost were not pledged.

(3) By the end of December 31, 2016, the investment amount for Changgu Biotech Corporation is NT$2,850 thousand, acquiring 285,000 shares, and the shareholding ratio is 19.26%.

3. Bond investments with no active market

	12/31/2016	12/31/2015
Time deposits	$6,320	$6,085

Non-current	$6,320	$6,085

Bond investments with no active market were no pledged; see Note 8 for more details.

4. Notes receivable

	12/31/2016	12/31/2015
Notes receivable - arising from operation	$3,252	$658
Less: Allowance for bad debts	-	-
Total	$3,252	$658

Notes receivables were not pledged.

5. Accounts receivable

	12/31/2016	12/31/2015
Accounts receivable	$233,639	$210,957
Less: Allowance for bad debts	(9,825)	(259)
Non-current assets held for sale	-	(21,068)
Subtotal	223,814	189,630
Accounts receivable--related parties	68,640	-
Total	$292,454	$189,630

Accounts receivables were not pledged.

Trade receivables between the Group and our clients are generally on from 60-day to 180-day terms. The information on the recognition of movements of bad debts and aging analysis of the accounts receivable and accounts receivable-related parties impairment is as follows (please refer to Note 12 for credit risk disclosure):

	Individually Assessed Impairment loss	Collectively Assessed Impairment loss	Total
1/1/2016	$-	$259	$259
Charge/(reversal) for the current period	-	9,721	9,721
Write off	-	(130)	(130)
Exchange differences	-	(25)	(25)
12/31/2016	$-	$9,825	$9,825
1/1/2015	$-	$828	$828
Charge/(reversal) for the current period	-	(581)	(581)
Write off	-	-	-
Exchange differences	-	12	12
12/31/2015	$-	$259	$259

Aging analysis of trade receivables that are past due as at the end of the reporting period but not impaired is as follows:

Neither past due nor	Past due but not impaired - accounts receivable					
	<=30 days	31-60 days	61-90 days	91-120	121-365	Total

	Neither past due impaired	Past due but not impaired - accounts receivable					
					days	days	
12/31/2016	$283,010	$6,720	$1,466	$523	$407	$328	$292,454
12/31/2015	158,419	18,055	11,019	1,581	341	215	189,630

6. Inventories

	12/31/2016	12/31/2015
Product	$6,958	$8,771
Finished goods	388,743	429,155
Work-in-process	127,159	135,207
Raw material	50,766	57,085
Non-current assets held for sale	-	(138,445)
Total	$573,626	$491,773

The cost of inventories recognized in expenses amounts is listed below:

Item	2016	2015
Cost of sales	$435,688	$406,729

No inventories were pledged.

7. Investments accounted for using the equity method

The following table lists the investments accounted for using the equity method of the Group:

	12/31/2016	
Investee company name	Amount	Shareholding Ratio
Investment in the associate:		
Shinva United Orthopedic Corporation	$414,657	49%

(1) Investment in the associate

Information relating the associate significant to the Group:

Company name: Shinva United Orthopedic Corporation

Relation: The enterprise used to handle the product production and sales relating to the Group's industry chain. Considering the integration of upstream and downstream businesses, we decided to invest this enterprise.

Primary operation place (registration country): China

Fair value with open market quotation: Shinva United Orthopedic Corporation is not a listed company in any securities exchange.

Summarized financial information and adjustment of the investment carrying amount:

	12/31/2016
Current assets	$530,679
Non-current Assets	477,395
Current liabilities	(110,567)
Non-current liabilities	-
Equity	897,507
Shareholding Ratio of the Group	49%
Subtotal	439,778
Inter-company transaction elimination and adjustment	(25,121)
Carrying amount of investment	$414,657

	1/1/2016~ 12/31/2016
Operating Revenue	$-
Continuing operations Net income	(26,953)
Other comprehensive gain or loss	-
Current comprehensive gain or loss	-

Aforementioned investments in the associate have no liabilities or capital commitment as of December 31, 2016, nor pledged affairs.

The Group has invested CNY 30,000 thousand, equivalent to NT$149,844 thousand to the associate in the way of technology price, which was recognized in long-term deferred income. Starting from the service provision date, it is amortized on average for three years. By the end of December 31, 2016, NT$19,105 thousand was already amortized.

8. Non-current assets held for sale

As per descriptions in note 9.1 of the consolidated financial statements, the Group sold 100% shares of United Medical Co., Ltd., United Medical Instrument Co., Ltd. and United Medical Technology (Shanghai) Co.,Ltd., therefore the assets, liabilities and equities related to United Medical Co., Ltd., United Medical Instrument Co., Ltd. and United Medical Technology (Shanghai) Co.,Ltd were recognized in the disposal group held for sale, which used to be the orthopedic instruments production and sales operation department in China.

Expressions of the disposal group are listed as follows:

	12/31/2015
Assets	
Current assets	
Cash and Cash Equivalents	$49,926
Net accounts collectable	21,068
Other accounts receivable	847
Inventory	138,445
Prepayment	11,055
Other current assets	896
Subtotal	222,237
Non-current Assets	
Property, plant and equipment	190,124
Intangible assets	8

Deferred income tax assets	1,211
Other non-current assets	1,445
Subtotal	192,788
Total assets	415,025
Liabilities	
Current liabilities	
Short-term loan	$155,691
Accounts payable	1,938
Other payables to subsidiaries	25,419
Current income tax liabilities	3,205
Other Current Liabilities	9,642
Long-term loan due in one year	6,487
Subtotal	202,382
Non-current liabilities	
Other noncurrent liabilities	13,161
Total liabilities	215,543
Net carrying amount of disposition group held for sale	$199,482
Equity attributable to owners of parent	
Other comprehensive gain or loss - conversion difference of financial statements of foreign operations	$3,831

9. Property, plant and equipment

	Land	Building and construction	Machinery equipment	Tooling equipment	Information equipment	Leasehold improvements	Other equipment	Construction in process and equipment awaiting examination	Total
Cost:									
1/1/2016	$41,855	$194,886	$371,399	$41,603	$12,150	$11,173	$214,018	$27,841	$914,925
Additions	-	245	8,896	13,159	1,703	1,150	105,621	233,923	364,697
Disposals	-	-	(11,209)	(1,983)	(2,965)	(2,257)	(8,527)	-	(26,941)
Reclassification	45,908	19,064	44,086	12,013	(1,901)	-	5,588	(124,758)	-
Effect of exchange rate changes	-	-	-	-	(9)	(24)	(2,455)	(1)	(2,489)
12/31/2016	$87,763	$214,195	$413,172	$64,792	$8,978	$10,042	$314,245	$137,005	$1,250,192
1/1/2015	$41,855	$182,565	$412,233	$37,994	$15,628	$42,207	$350,797	$28,293	$1,111,572
Additions	-	3,299	13,373	5,804	1,766	3,974	105,819	73,898	207,933
Disposals	-	-	(7,193)	(280)	(3,119)	-	(11,431)	-	(22,023)
Reclassification	-	9,022	53,070	1,064	-	-	7,636	(70,776)	16
Effect of exchange rate changes	-	-	(1,980)	(56)	(69)	(640)	(1,431)	(46)	(4,222)
Non-current assets held for sale	-	-	(98,104)	(2,923)	(2,056)	(34,368)	(237,372)	(3,528)	(378,351)
12/31/2015	$41,855	$194,886	$371,399	$41,603	$12,150	$11,173	$214,018	$27,841	$914,925
Depreciation									
1/1/2016	$-	$17,003	$124,256	$16,065	$6,877	$6,266	$82,593	$-	$253,060
Disposals	-	5,668	34,054	8,904	2,246	1,904	44,497	-	97,273
Disposals	-	-	(11,210)	(1,677)	(4,174)	(2,257)	(7,311)	-	(26,629)
Effect of exchange rate changes	-	-	-	-	(3)	(16)	(735)	-	(754)
12/31/2016	-	$22,671	$147,100	$23,292	$4,946	$5,897	$119,044	$-	$322,950
1/1/2015	$-	$12,002	$156,00	$11,044	$8,544	$17,270	$142,35	$-	$347,215

			4				1		
Depreciation	-	5,001	35,968	7,572	3,056	3,147	62,449	-	117,193
Disposals	-	-	(6,409)	(280)	(3,109)	-	(10,869)	-	(20,667)
Reclassification	-	-	-	-	-	-	16	-	16
Effect of exchange rate changes	-	-	(1,196)	(41)	(50)	(232)	(951)	-	(2,470)
Non-current assets held for sale	-	-	(60,111)	(2,230)	(1,564)	(13,919)	(110,403)	-	(188,227)
12/31/2015	$-	$17,003	$124,256	$16,065	$6,877	$6,266	$82,593	$-	$253,060
Net carrying amount:									
12/31/2016	$87,763	$191,524	$266,072	$41,500	$4,032	$4,145	$195,201	$137,005	$927,242
12/31/2015	$41,855	$177,883	$247,143	$25,538	$5,273	$4,907	$131,425	$27,841	$661,865

(1) The majority composition of the Group's buildings is main building, electric engineering and refurbishment engineering, etc., and the depreciation of them is recognized by useful lives, 50, 20 and 5 years respectively.

(2) Property, plant and equipment were pledged, please refer to Note 8.

10. Intangible assets

	Computer software cost	Development expenditure	Trademark and licensing rights	Total
Cost:				
1/1/2016	$32,955	$12,886	$-	$45,841
Additions - separate acquisition	4,970	18,346	6,516	29,832
Others	(22,330)	-	-	(22,330)
Effect of exchange rate changes	-	-	(392)	(392)
12/31/2016	$15,595	$31,232	$6,124	$52,951
1/1/2015	$32,594	$12,886	$-	$45,480
Additions - separate acquisition	919	-	-	919
Effect of exchange rate changes	(11)	-	-	(11)
Non-current assets held for sale	(547)	-	-	(547)
12/31/2015	$32,955	$12,886	$-	$45,841

Amortization and impairment:				
1/1/2016	$26,723	$3,983	$-	$30,706
Amortization	4,614	1,224	433	6,271
Others	(22,330)	-	-	(22,330)
Effect of exchange rate changes	-	-	(25)	(25)
12/31/2016	$9,007	$5,207	$408	$14,622
1/1/2015	$21,407	$3,124	$-	$24,531
Amortization	5,865	859	-	6,724
Effect of exchange rate changes	(10)	-	-	(10)
Non-current assets held for sale	(539)	-	-	(539)
12/31/2015	$26,723	$3,983	$-	$30,706
Net carrying amount:				
12/31/2016	$6,588	$26,025	$5,716	$38,329
12/31/2015	$6,232	$8,903	$-	$15,135

11. Short-term loan

	12/31/2016	12/31/2015
Credit loan	$395,625	$228,530
Liabilities directly associated with non-current assets held for sale	-	(155,691)
Total	$395,625	$72,839
Interest rate range (%)	0.9900-2.3081	0.7468-2.9309

By the end of December 31, 2016 and 2015, the company's unused bank loans are USD 2,500 thousand, NT$606,800 thousand and USD 500 thousand, NT$373,398 thousand respectively.

12. Short-term notes and bills payable

	12/31/2016	12/31/2015
Short-term notes and bills payable	$50,000	$-
Interest rate (%)	1.0780	-

13. Bonds payable

	12/31/2016	12/31/2015
Domestic unpledged bonds payable	$-	$-
Less: Liabilities due within one year	-	-
Long-term domestic convertible bonds payable	$-	$-

(1) Domestic convertible bonds payable

	12/31/2016	12/31/2015
Liability elements:		
Carrying amount of domestic convertible bonds payable	$-	$200,000
Converted amount	-	(200,000)
Discount of domestic convertible bonds payable	-	-
Subtotal	-	-
Less: Liabilities due within one year	-	-
Net	$-	$-
Embedded derivatives	$-	$-
Equity elements	$-	$-

On February 6, 2013, the Company issued the domestic non-pledge convertible bonds with the face interest rate 0%. The convertible bonds are analyzed based on the contract clauses, and the composition elements include primary debts, embedded derivatives (option of redemption for the issuer, and an option of requesting the issuer's redemption), and equity elements (bondholders have the option of requesting to convert into issuer's ordinary shares). Primary issuance clauses are as follows:

Total amount of issuance: NT$200,000 thousand. Face amount per equity: NT$100 thousand. The issuance is in full carrying amount.

Issuance period: from February 6, 2013 to February 6, 2016.

Critical clauses for redemption:

A. On the next day after the convertible bonds issued for one month full (March 7, 2013) till 40 days prior to the due date (December 27, 2015), if the Company's ordinary shares closing price has exceeded 30% of the converted price for 30 business days in a roll, the Company should announce to reclaim all bonds circulating externally in cash by the bond carry amount.

B. On the next day after the convertible bonds issued for one month full (March 7, 2013) till 40 days prior to the due date (December 27, 2015), if the Company's convertible bonds circulating externally are lower than NT$20,000 thousand (10% of the original issue amount), the Company should announce to reclaim all bonds circulating externally in cash by the bond carry amount.

C. On February 6, 2015, the bond holders can request the Company to redeem all or partial corporate bonds by the face amount.

Conversion methods:

A. Converted target: Ordinary shares of the Company.

B. Conversion period: From March 7, 2013 to January 27, 2016, the bond holders can request for conversion into the Company's ordinary shares to replace the cash payout made by the Company.

C. Converted price and adjustment: the converted price upon issuance was set as NT$41.80 per share. When it comes to the converted price adjustment in accordance with the issuance clauses for the Company's ordinary shares, the converted price is subject to change in accordance to the formula stipulated in the issuance clauses. Conversion price as of December 31, 21015 was NT$39.30 per share.

D. Redemption on maturity: When the corporate bonds are due and not settled yet, the repayment should be made in cash by the face amount.

Also, the corporate bonds were all converted as of December 31, 2015; amount: NTS 200,000 thousand.

14. Long-term loan

Long-term loan details for the years ended December 31, 2016 and 2015 are as follows:

Creditor	12/31/2016	Interest rate (%)	Repayment period and method
Taiwan Cooperative Bank - Hsinchu Science Park Branch	$19,376	1.5500	Between January 29, 2014 and January 29, 2019, the first repayment was paid from January 29, 2015. Every three months, NT$2,153 thousand of principal on average will be amortized over 17 terms.
〃	54,857	1.4500	Between September 18, 2013 and October 31, 2031, the first repayment was paid from September 18, 2014. Every three months, NT$914 thousand of principal on average will be amortized over 70 terms.
〃	27,294	1.5500	Between December 30, 2013 and December 30, 2018, the first repayment was paid from December 30, 2014. Every three months, NT$3,412 thousand of principal on average will be amortized over 17 terms.
〃	64,000	1.6000	Between September 2, 2016 and September 2, 2021, the first repayment was paid from September 2, 2017. Every three months, NT$3,765 thousand of principal on average will be amortized over 17 terms.
CTBC Bank	17,275	1.5700	Between November 3, 2014 and November 1, 2019, the first repayment was paid from December 3, 2014. Every

Creditor	12/31/2016	Interest rate (%)	Repayment period and method
			month, NT$185 thousand will be repaid, and the remaining principal will be repaid in the lump sum by the deadline.
〃	10,280	1.5700	Between April 24, 2012 and April 24, 2017, every month, NT$120 thousand will be repaid over 28 terms, and the remaining principal will be repaid in the lump sum by the deadline.
Total	193,082		
Less: long-term loan due in one year	(37,105)		
Net	$155,977		

Creditor	12/31/2015	Interest rate (%)	Repayment period and method
Taiwan Cooperative Bank - Hsinchu Science Park Branch	$40,941	1.8500	Between December 30, 2013 and December 30, 2018, the first repayment was paid from December 30, 2014. Every three months, NT$3,412 thousand of principal on average will be amortized over 17 terms.
〃	58,514	1.7850	Between September 18, 2013 and October 31, 2031, the first repayment was paid from September 18, 2014. Every three months, NT$914 thousand of principal on average will be amortized over 70 terms.
〃	27,989	1.8500	Between January 29, 2014 and January 29, 2019, the first repayment was paid from January 29, 2015. Every three months, NT$2,153 thousand of principal on average will be amortized over 17 terms.
CTBC Bank	19,495	1.7500	Between November 3, 2014 and November 1, 2019, the first repayment was paid from December 3, 2014. Every month, NT$185 thousand will be repaid, and the remaining principal will be repaid in the lump sum by the deadline.
〃	11,720	1.7500	Between April 24, 2012 and April 24, 2017, every month, NT$120 thousand will be repaid over 28 terms, and the remaining principal will be repaid in the lump sum by the deadline.
Taiwan Business Bank	1,675	2.1750	Between March 2, 2011 and March 2,

Creditor	12/31/2015	Interest rate (%)	Repayment period and method
			2016, the first repayment was paid from June 2, 2015. Every three months, NT$1,675 thousand of principal on average will be amortized over 20 terms.
〃	1,687	2.1750	Between March 18, 2011 and March 18, 2016, the first repayment was paid from April 18, 2012. Every three months, NT$1,688 thousand of principal on average will be amortized over 16 terms.
〃	583	2.1750	Between March 16, 2012 and March 18, 2016, the first repayment NT$595 thousand was paid from April 15, 2012. Every three months, NT$583 thousand of principal on average will be amortized over the remaining 15 terms.
〃	23,000	2.1750	Between August 15, 2011 and August 15, 2021, the first repayment was paid from November 15, 2014. Every three months, NT$1,000 thousand of principal on average will be amortized over 28 terms.
Shanghai Commercial & Savings Bank	6,487	2.7355	Between April 10, 2013 and April 8, 2016, the first repayment was paid from November 10, 2013. Every three months, NT$100 thousand of principal on average will be amortized over 10 terms.
Liabilities directly associated with non-current assets held for sale	(6,487)		
Total	185,604		
Less: long-term loan due in one year	(37,521)		
Net	$148,083		

Taiwan Business Bank, Taiwan Cooperative Bank and CTBC Bank extended their pledged loans with partial lands, buildings and machine equipment, etc. to register the entitlement to the first priority mortgage. For more details about the pledged conditions, please see Note 8.

15. Post-employment benefits

Defined contribution plan

The post-employment regulations in accordance with "Labor Pension Act" of the company belong to the defined contribution plan. According to the Act, the company and its domestic subsidiaries' monthly contribution rate for employees' pension shall not be lower than 6% of employees' monthly salary. The company and its domestic subsidiaries have complied with the Act to formulate the post-employment regulations, and on a monthly basis contributed 6% of employees monthly salary to the individual pension accounts under the supervision of the Bureau of Labor Insurance.

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

Expenses under the defined contribution plan for the years ended December 31, 2016 and 2015 are NT$17,510 thousand and NT$26,761 thousand, respectively.

Defined benefits plan

The Company's post-employment regulations in accordance with the "Labor Standards Act" belong to the defined benefits plan. The payout of employees' pension is to consider service years as the base, and the approved monthly average wage upon retirement to make the calculation. Employees whose service years are 15 years or less, two cardinal numbers shall be assigned for every one year; those whose service years are over 15 years, one cardinal number shall be assigned for every one year. Maximum base numbers are 45. In accordance with the "Labor Standards Act", the Company contributes 2% of total salaries as the pension fund on a monthly basis, which is deposited in the special account of Bank of Taiwan, in the name of the Supervisory Committee of Labor Pension Reserve. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

The assets allocation is conducted the Ministry of Labor according to the regulations of labor pension collection, management and use. The investment of funds adopts the following approaches to realize the investment; through the self-operation and commissioned operation, as well as the adoption of the mid and long-term investment strategy under active and passive management models. In considerations of risks such as market, credit and liquidity, the Ministry of Labor defines the cap for fund risks and control plans, to ensure sufficient flexibility without taking too much risk to achieve the target remuneration. In terms of the use of the fund, the minimum income following the annual settlement and distribution, it shall not be lower than the income of two-year fixed deposit. If there is insufficiency, the authority can authorize to make supplement by the national treasury. Since the Company is not entitled to participate in the operation and management of the fund, it is unable to disclose the classification of planned asset fair value as per Paragraph 142, IAS 19. By December 31, 2016, the Company's defined benefits plan has estimated to contribute NT$6,460 thousand for the following year.

For the years ended on December 31, 2016 and December 31, 2015, the Company's defined benefits plans are scheduled to overdue in 2031 and 2030.

The table below summarizes the defined benefits plan recognized in costs of profit or loss:

	2016	2015
Service cost	$361	$313
Net interest of net defined benefit liability	411	516
Total	$772	$829

The present value of defined benefit obligations and the fair value adjustments of the plan assets are as follows:

	12/31/2016	12/31/2015	1/1/2015
Present value of defined benefit obligations	$53,371	$54,699	$46,928
Fair value of plan assets	(30,888)	(27,294)	(23,997)
Booked value of net defined benefit liability	$22,483	$27,405	$22,931

Adjustment of net defined benefit liability:

	The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. Present value of obligations	Plan assets Fair value	Net defined benefit Total
1/1/2015	$46,928	$(23,997)	$22,931
Current service cost	313	-	313
Interest expense (income)	1,056	(540)	516
Previous service cost and settlement gain and loss	-	-	-
Subtotal	48,297	(24,537)	23,760
Remeasurements of defined benefit liability/asset:			
Actuarial gains or losses from demographic assumptions	(78)	-	(78)
Actuarial gains or losses from financial assumptions	5,690	-	5,690
Experiencial adjustment	1,270	-	1,270
Remeasurements of defined benefit asset	-	(107)	(107)
Subtotal	6,882	(107)	6,775
Benefit payments	(480)	480	-
Employer contributions	-	(3,130)	(3,130)
12/31/2015	$54,699	$ (27,294)	$27,405
Current service cost	361	-	361
Interest expense (income)	820	(409)	411
Previous service cost and settlement gains or losses	-	-	-

Subtotal	55,880	(27,703)	28,177
Remeasurements of defined benefit liability/asset:			
Actuarial gains or losses from demographic assumptions	337	-	337
Actuarial gains or losses from financial assumptions	-	-	-
Experiencial adjustment	265	-	265
Remeasurements of defined benefit asset	-	165	165
Subtotal	602	165	767
Benefit payments	(3,111)	3,111	-
Employer contributions	-	(6,461)	(6,461)
12/31/2016	$53,371	$(30,888)	$22,483

Following assumptions are used to determine the defined benefit plan of the Corporation:

	12/31/2016	12/31/2015
Discount rate	1.50%	1.50%
Expected salary increase rate	3.00%	3.00%

Sensitivity analysis of each significant actuarial assumption:

	2016		2015	
	Defined benefit obligation increases	Defined benefit obligation decreases	Defined benefit obligation increases	Defined benefit obligation decreases
Discount rate increases by 0.5%	$-	$3,725	$-	$3,869
Discount rate decreases by 0.5%	4,056	-	4,233	-
Expected salary increases by 0.5%	3,974	-	4,147	-
Expected salary decreases by 0.5%	-	3,690	-	3,833

The aforementioned sensitivity analysis is conducted when the other assumptions do not have any change. When a single actuarial assumption (e.g. discount rate or expected salary) occurs reasonable changes, the analysis is conducted on how it shall impact the defined benefit obligations. Since partial actuarial assumptions are inter-related, practically speaking, it is rare to see only a single actuarial assumption changes. Hence, this analysis has its own limitation.

The method and assumption of the sensitivity analysis of the current period have no differences from the previous period.

16. Equities

(1) Common stock

The Company's authorized capital and issued capital were NT$600,000 thousand and

NT$559,761 thousand respectively; each at a par value of NT$10; 55,976 thousand shares were issued as of January 1, 2015.

The convertible bonds issued by the company applied for conversion of NT$94,800 thousand in 2015; a total of 2,407 thousand shares of ordinary shares were converted. Under the resolution of the Board of Directors, July 27, 2015 and November 8, 2015 were defined as the capital increase base date for 1,865 thousand shares. The change registration was approved by the Hsinchu Science Park Bureau, Ministry of Science and Technology.

According to the annual general meeting resolution on June 23, 2015, the company will issue new restricted employee shares to the employees; an estimate of 600 thousand shares will be issued, and the face amount per share is NT$10, with the issue price of NT$0. The application was effective under the approval of the Financial Supervisory Commission on July 6, 2015. According to the Board of Directors resolution on July 8, 2015, the company shall issue 572 thousand shares with the issue price of NT$0; capital increase was NT$5,720 thousand, with the base date set on July 27, 2015.

Since the Company failed to meet the vesting conditions of acquisition of new restricted employee shares, on December 23, 2015, the Board of Directors resolved to cancel 8 thousand shares, determined the capital decrease base date as December 28, 2015, and completed the change registration on January 8, 2016. By December 31, 2015, the actual issuance of new restricted employee shares was 564 thousand shares.

According to the Board of Directors resolution on October 2, 2015, the company determined to conduct issuance of common stock for cash: NT$128,000 thousand, separated into 12,800 thousand shares, with face amount per share at NT$10 and issue price at NT$46 per share. This capital increase case sets November 8, 2015 as the capital increase base date. The change registration was approved by the Hsinchu Science Park Bureau, Ministry of Science and Technology.

By December 31, 2015, the Company's rated and issued equities are NT$1,000,000 thousand and NT$712,049 thousand with face amount NT$10 per share; 71,205 thousand shares were issued.

The convertible bonds issued by the company applied for conversion of NT$94,800 thousand in 2015; a total of 2,407 thousand shares of ordinary shares were converted. Under the resolution of the Board of Directors, Feburary 15, 2016 was defined as the capital increase base date for 542 thousand shares. The change registration was approved by the Hsinchu Science Park Bureau, Ministry of Science and Technology.

By December 31, 2015, the company's rated and issued equities are NT$1,000,000 thousand and NT$717,469 thousand with face amount NT$10 per share; 71,747 thousand shares were issued.

(2) Capital surplus

	12/31/2016	12/31/2015
Issue premium	$889,582	$877,259
Recognized value of changes in equity of ownership of subsidiaries	2,418	-
Share-based payment remuneration cost	-	12,323

Issuance of employee restricted stock	23,406	23,406
Total	$915,406	$912,988

According to the laws, the capital reserve shall not be used except for offset the deficit of the company. When a company incurs no loss, it may distribute the capital surplus generated from the excess of the issuance price over the pay value of capital and donations. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(3) Retained earnings and dividend policies

According to the Company’s Articles of Incorporation, current year’s earnings, if any, shall be distributed in the following order:

A. Payment of all taxes and dues
B. Offset operation losses
C. Appropriate10% to be the legal reserve
D. Other special reserve recognized or reversed in accordance with laws and regulations or supervisory authorities.
E. Appropriate 12% and 2% respectively from the remaining balance after the deduction of the aforementioned points A to D for employees' bonus and directors’ and supervisors’ compensation. Employees' bonus shall be distributed in cash or new shares. The recipients shall the employees of the company, who are qualified for specific conditions, which are formulated by the Board of Directors.
F.The remaining earnings shall be distributed by the Board of Directors according to the dividend policy, and reported to the annual general meeting.

However, according to Article 235-1 of the Company Act, amended on May 20, 2015, the company shall distribute employees' compensation according to the the profit condition of the current year. According to the Company’s Articles of Incorporation amended at the annual general meeting on June 22, 2016, current year’s earnings, if any, shall be distributed in the following order:

A. Payment of all taxes and dues
B. Offset operation losses
C. Appropirate 10% to be the legal reserve
D. Other special reserve recognized or reversed in accordance with laws and regulations or supervisory authorities.
E. The remaining earnings shall be distributed by the Board of Directors according to the dividend policy, and reported to the annual general meeting.

The Company's dividend policy shall consider the Company's current and future investment environment, capital demands, domestic and foreign competition situations and capital budgets, in order to safeguard the shareholders' interests, balance dividend and cater the long-term financial plan. On an annual basis, the Board of Directors will formulate a distribution plan, and report it to the annual general meeting. The distribution of shareholders' dividend shall appropriate 50% to 100% of current year's distributable earnings as shareholders' dividend, among which 50% at least shall be cash dividend.

According to the Company Act, the contribution of the legal reserve shall reach to the capitalization. The legal reserve is subject to offset operation losses. When the company has no operation losses, it shall distribute new shares or cash of the 25% excessive legal reserve against paid-in capital to the shareholders at the original pro rata.

After adopting IFRS, the company complies with Letter No. 1010012865 issued on April 6, 2012 issued by the FSC: upon the first-time adoption of IFRS, on the transition date, for the booked unrealized revaluation increase and aggregated adjustment interest, since the exemption of IFRS 1 "First-time Adoption of IFRS" is transferred into retained earnings, the special earnings reserve of the same amount shall be recognized. After adopting IFRS to produce the financial statements, with respect to the distribution of distributable earnings, the company has recognized the remaining balance of special earnings reserve and the difference of other equity deduction net amount to recognize the special earnings reserve. Afterward, if other shareholders' equity deduction has reversed, the reversal shall be applicable to earnings distribution.

However, in the first-time adoption of IFRS, the company's reserved earnings are less, so special earnings reserve is not needed to be recognized. In addition, in 2016 and 2015 the company did not use, dispose or reclassify related assets, so there is no reversal of special earnings reserve recognized in undistributed earnings.

Details of the 2016 and 2015 earnings distribution and dividends per share as approved by the Board of Directors and the annual general meeting on March 7, 2017 and June 22, 2016, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NT$)	
	2016	2015	2016	2015
Legal reserve	$14,660	$13,381		
Special reserve	31,620	-		
Common stock-cash dividend	99,554	114,803	$1.388	$1.600
Total	$145,834	$128,184		

Please refer to Note 6.20 for further details on employees' compensation and remuneration to directors and supervisors.

(4) Non-controlling interests

	1/1/2016~ 12/31/2016	1/1/2015~ 12/31/2015
Beginning balance	$-	$-
Loss attributable to non-controlling interests	(5,752)	-
Other comprehensive income, attributable to non-controlling interests:		
Conversion difference of financial statements of foreign operations	(5,249)	-

Changes in non-controlling interests:	39,385	-
Balance at the End of the Period	$28,384	$-

17. Share-based payment plans

Certain employees of the Group are entitled to share-based payment as part of their remunerations; services are provided by the employees in return for the equity instruments granted. These plans are accounted for us equity-settled share-based payment transactions.

(1) Plan of new restricted employee shares by the parent company of the Group

According to the annual general meeting resolution on June 23, 2015, the company issued new restricted employee shares up to 600 thousand shares of ordinary shares. The stock price at the given date stood at NT$51.5. The new restricted employee shares issued by the company shall be transferred within three years, however, the holders are still entitled to dividend distribution. Since the company failed to meet the vesting conditions of acquisition of new restricted employee shares, on December 23, 2015, the Board of Directors resolved to cancel 8 thousand shares. By December 31, 2016 and December 31, 2015, the actual issuance of the new restricted employee shares was 564 thousand shares.

After the issuance of new restricted employee shares, they should be transferred to a trust, and prior to the fulfillment of the vesting conditions, the employee shall not request the trustee to return the new restricted employee shares for any reason or in any manner. During the trust period of the new restricted employee shares, the Company is fully responsible for delegating the employees to deal with the stock trust agency in conducting the negotiation, signing, amendment, extension, cancellation, termination of the trust contract (inclusive of but not limited to), as well as the transfer, use and disposal of the trust property.

When the employee fails to meet the vesting conditions, the Company is entitled by law to retrieve the employee's ownership of the new restricted employee shares and cancel them.

(2) The parent company of the Group reserves the employee subscription plan for issuance of common stock for cash according to the Company Act

Setting October 18, 2015 as the base date, the company issued common stocks for cash with 12,800 thousand shares at NT$10 per share and issued at the premium of NT$46 per share. According to Article 267, Paragraph 1 of the Company Act, the Company has reserved 15% of new shares, 1,920 thousand shares in total for employees' subscription. According to IFRS 2 "Share-based Payment", the compensation cost recognized at the fair value of the given equity product by the given date is NT$12,323 thousand.

(3) The expense recognized for employee share-based payment plans is shown in the following table:

	2016	2015
Plan of new restricted employee shares	$9,682	$4,191
Subscription plan of common stock for cash for employees	-	12,323

Total	$9,682	$16,514

18. Operating revenue

	2016	2015
Sale of goods	$1,411,579	$1,434,726
Less: Sales returns, discounts and allowances	(28,239)	(43,602)
Other operating revenues	-	1,449
Total	$1,383,340	$1,392,573

19. Operating leases

Operating leases commitments - Group as lessee

The Group has entered into commercial leases on plant, office and parking space. These leases have an average life of three to thirty years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as of December 31, 2016 and 2015 are as follows:

	12/31/2016	12/31/2015
No later than one year	$14,262	$16,937
Later than one year but no later than five years	38,385	40,639
Later than five years	73,396	91,384
Total	$126,043	$148,960

20. Summary statement of employee benefits, depreciation and amortization expense by function:

Function / Type	2016			2015		
	Attributable to operating costs	Attributable to operating expenses	Total	Attributable to operating costs	Attributable to operating costs	Total
Employee benefits expense						
Salary costs	$158,450	$233,068	$391,518	$169,675	$241,005	$410,680
Labor and health insurance premiums	15,127	13,859	28,986	14,141	15,045	29,186
Pension expense	7,853	10,429	18,282	10,950	16,640	27,590
Other employee benefits expenses	6,608	3,922	10,530	6,976	4,893	11,869
Depreciation expense	42,461	54,812	97,273	44,897	72,296	117,193
Amortization expense	-	6,271	6,271	-	6,724	6,724

According to the Company’s Articles of Incorporation amended at the annual general meeting on June 22, 2016, current year’s earnings, if any, shall be distributed by 12% as employees' compensation, and less than 3% as directors' and supervisors' compensation. However, the company's accumulated losses shall first be offset. The aforementioned employees' compensation shall be distributed in cash and undertaken by a resolution adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors and a report of such distribution shall be submitted to the annual general meeting. Information relating to employees' and directors’ and supervisors’ compensation approved by the Board of Directors can be inquired at the website of Market Observation Post System of TWSE.

Based on the earnings as of 2016, the Company has estimated to recognize 12% and 2.9% for employees' compensation and directors’ and supervisors’ compensation respectively, and the recognition of employees' compensation and directors’ and supervisors’ compensation is NT$23,061 thousand and NT$5,695 thousand respectively under the salary expense. The company, as per resolution of the Board of Directors on March 7, 2017, disbursed NT$23,061 thousand and NT$5,765 thousand respectively as employees' compensations and directors’ and supervisors’ compensations. There is a NT$70 thousand difference between the estimated amount and the actual distribution amount decided by the Board of Directors, which is recognized in the profit and loss for the next year.

The company, as per resolution of the Board of Directors on March 22, 2016, disbursed NT$23,155 thousand and NT$4,824 thousand respectively as employees' compensations and directors’ and supervisors’ compensations in 2015. Recognized employees' remunerations and directors' remunerations are NT$23,947 thousand and NT$3,991 thousand respectively as of 2015; recognized remuneration expenses are as follows. The difference between the estimation and actual disbursement approved by the Board of Directors is NT$41 thousand, which is recognized in profit or loss for the following year.

21. Non-operating income and expenses

(1) Other income

	2016	2015
Interest Income	$3,867	$1,978
Other income - others	37,110	4,362
Total	$40,977	$6,340

(2) Other gains and losses

	2016	2015
Gain on disposal of investments	$7,335	$-
Gains and losses on disposal of property, plant and equipment	(301)	$54
Foreign exchange (losses) gains, net	(30,040)	(8,917)
Financial liability gains and losses measured at fair value through profit and loss	-	1,371
Other expenses	(163)	(1,536)
Total	$(23,169)	$(9,028)

(3) Financial costs

	2016	2015

Interest of bank loan	$(5,575)	$(9,299)
Interest of bond payable	-	(1,471)
Total financial costs	$(5,575)	$(10,770)

22. Components of other comprehensive income

Components of other comprehensive income for 2016:

	Arising during the period	Current Reclassification Adjustment	Other Comprehensive Income	Income Tax Gains (expenses)	After-tax amount
Items not reclassified to profit or loss:					
Remeasurement of defined benefit plan	$(767)	$-	$(767)	$-	$(767)
Items that might be reclassified to profit or loss:					
Conversion difference of financial statements of foreign operations	(52,587)	4,616	(47,971)	3,535	(44,436)
Equity directly relating to non-current assets held for sale	-	(4,616)	(4,616)	785	(3,831)
Total	$(53,354)	$-	$(53,354)	$4,320	$(49,034)

Components of other comprehensive income for the 2015:

	Arising during the period	Current Reclassification Adjustment	Others Comprehensive Income	Income Tax Gains (expenses)	After-tax amount
Items not reclassified to profit or loss:					
The amount to be measured again when the welfare plan is determined	$(6,775)	$-	$(6,775)	$1,152	$(5,623)
Items that might be reclassified to profit or loss:					
Conversion difference of financial statements of foreign operations	2,981	(4,616)	(1,635)	278	(1,357)
Equity directly relating to non-current assets held for sale	-	4,616	4,616	(785)	3,831
Total	$(3,794)	$-	$(3,794)	$645	$(3,149)

23.Income tax

The major components of income tax expense (income) for the year ended December 31, 2016 and 2015 are as follows:

Income tax expense recognized in profit or loss

	2016	2015
Current income tax expense (income):		
Current income tax charge	$50,807	$32,373
Adjustments in respect of current income tax of prior periods	(15,478)	8,342
Deferred tax income:		
Deferred tax income relating to origination and reversal of temporary differences	(17,466)	(8,802)
Non-current assets held for sale	-	50
Income tax expenses	$17,863	$31,963

Income tax recognized in other comprehensive income

	2016	2015
Deferred tax expenses (income):		
Conversion difference of financial statements of foreign operations	$3,535	$278
and directly related equity of non-current assets held for sale	785	(785)
The amount to be measured again when the welfare plan is determined	-	1,152
Income tax relating to the components of other comprehensive income	$4,320	$645

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	2016	2015
Accounting profit before tax from continuing operations	$158,712	$165,770
Tax at the domestic rates applicable to profits in the country of main operation entity concerned	$28,827	$28,803
Tax effect of revenues exempt from taxation	(17,850)	(10,710)
Tax effect of expenses not deductible for tax purposes	12,135	8,743
Tax effect of differed tax assets tabulates	10,229	(3,215)
Adjustments in respect of current income tax of prior periods	(15,478)	8,342
Total income tax expense recognized in profit and loss	$17,863	$31,963

Deferred tax assets (liabilities) relate to the following:

2016

	Beginning balance	Recognized in profit and	Recognized in other Comprehensive	Exchange differences	Balance at the End of

		loss	Income		the Period
Temporary differences					
Unrealized deals within Group entities	$34,411	$(5,996)	$-	$-	$28,415
Unrealized exchange profit and loss	(394)	1,236	-	-	842
Depreciation tax difference	1	-	-	(1)	-
Conversion difference of financial statements of foreign operations	(3,535)	-	3,535	-	-
Equity directly relating to non-current assets held for sale	(785)	-	785	-	-
Long-term deferred income	-	22,226	-	-	22,226
Deferred income tax (expense)/benefit		$17,466	$4,320	$(1)	
Deferred income tax assets/(liabilities) net	$29,698				$51,483
The information in the balance sheet shown as follows:					
Deferred income tax assets	$34,412				$51,483
Deferred income tax liabilities	$(4,714)				$-

2015

	Beginning balance	Recognized in profit and loss	Recognized in other Comprehensive Income	Exchange differences	Balance at the End of the Period
Temporary differences					
Financial assets valuation measured at fair value through profit or loss	$(1)	$1	$-	$-	$-
Unrealized expense	487	(496)	-	9	-
Unrealized deals within Group entities	29,071	5,340	-	-	34,411
Unrealized exchange profit and loss	(2,537)	2,143	-	-	(394)
Unrealized rent	1,161	50	-	-	1,121
Depreciation tax difference	(2,975)	3,029	-	(53)	1
Federal and state tax	111	(113)	-	2	-
Conversion difference of financial statements of foreign operations	(3,813)	-	278	-	(3,535)
Equity directly relating to non-current assets held for sale	-	-	(785)	-	(785)
Net defined benefit liability - non-current	-	(1,152)	1,152	-	-
Deferred income tax (expense)/benefit		$8,802	$645	$(42)	
Assets held for sale	-				(1,121)
Deferred income tax assets/(liabilities) net	$21,504				$29,698
The information in the balance sheet shown as follows:					
Deferred income tax assets	$30,830				$34,412
Deferred income tax liabilities	$(9,326)				$(4,714)

Unrecognized deferred income tax assets

The Company's unrecognized deferred income tax assets account for NT$54,429 thousand and NT$48,877 thousand for the year ended December 31, 2016 and 2015 respectively.

According to "Statute for Upgrading Industry", the Company has been entitled to the benefit of business income tax exemption for joint replacements from January 1, 2012 and the following five years.

Information of Integrated Income Tax System

	12/31/2016	12/31/2015
Shareholders' tax account deductible against balance	$43,270	$37,612

The Company's tax deductible ratio of estimated earnings distribution in 2016 and that of actual earnings distribution in 2015 are both 20.48%.

The Company no longer has undistributed earnings in or before 1997.

Income tax declaration approval

By the end of December 31, 2016, the company's business income tax settlement and declaration were approved by the taxing authority as of 2014 data.
The 2012 business income tax settlement and declaration case approved by the taxing authority was subject to NT$11,500 thousand supplementary payment. However, the Company was dissatisfied with the approval content of the authority and filed for a review application, and the estimated supplementary tax in 2015 was NT$11,500 thousand. According to the review by the National Taxation Bureau, Ministry of Finance issued on February 22, 2016, the Company's business income tax for 2012 was changed to NT$1,888 thousand; therefore, the Company reversed the overestimated income tax of NT$9,612 thousand in 2016.

24. Earnings per share

Basic earnings per share is calculated by dividing the net profit of parent company ordinary shares holders by weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit of parent company ordinary shares (adjusted interest of convertible bond) by weighted average number of ordinary shares outstanding during the period, adding weighted average number of ordinary shares converted from dilutive potential ordinary shares into ordinary shares to be issued.

	2016	2015
(1) Basic earnings per share		
Attribute to net interest of parent company common	$146,601	$133,807

	2016	2015
stock holder (NT$thoudsand)		
Weighted average number of common stock shares of basic earnings per share	71,116	58,210
Basic earnings per share (NT$)	$2.06	$2.30

(2) Diluted earnings per share

Attribute to net interest of parent company common stock holder (NT$thoudsand)	$146,601	$133,807
Interest of convertible bond (NT$thoudsand)	-	1,220
Attribute to net interest of parent company common stock holder after dilution effect adjustment (NT$thoudsand)	$146,601	$135,027
Weighted average number of common stock shares of basic earnings per share		
Dilution effect:		
Employee dividend - stock (thousand shares)	-	351
Convertible bond (thousand shares)	-	2,015
Restricted employees new shares (thousand shares)	354	96
Weighted average number of common stock shares after dilution effect adjustment	71,470	60,672
Diluted earnings per share (NT$)	$2.05	$2.23

After the reporting period and before the publication of the financial statements, there are no other transactions relating to significant changes in ordinary shares outstanding or potential ordinary shares.

7. Related-party transactions

1. Sales

	2016	2015
Affiliated companies of the Group	$305,541	$-

The sales price offered by the company to the related parties is added at the cost, and the payment term in principle has no significant differences from normal exporting customers, however, the company shall offer a longer credit period in consideration of the related parties' funding conditions.

2. Purchase

	2016	2015
Affiliated companies of the Group	$59,743	$-

The purchase price offered by the company to the related parties is added at the cost, and the payment term is to pay on a monthly basis.

3. Accounts receivable

	12/31/2016	12/31/2015
Affiliated companies of the Group	$68,640	$-

4. Accounts payable

	12/31/2016	12/31/2015
Affiliated companies of the Group	$13,568	$-

5. Other receivables

	12/31/2016	12/31/2015
Affiliated companies of the Group	$107,274	$-

6. Property transactions

The Group sold shares to the following related parties in 2016:

	Property name	Disposal price	Disposal interest
Affiliated companies of the Group	United Medical Co., Ltd., United Medical Instrument Co., Ltd. and United Medical Technology (Shanghai) Co.,Ltd.	$134,383	$7,335

The Company has collected NT$17,697 thousand, and the remaining balance NT$107,271 thousand to be collected was deposited in a monitored bank account agreed bilaterally. After regulatory procedures are approved by the government, the bank will transfer the remaining balance.

The Group sold assets to the following related parties in 2015:

	Property name	Disposal price	Loss disposal
Primary management	Transportation equipment	$532	$(9)

By December 31, 2015, the Company has collected NT$532 thousand.

7. Remunerations for the primary management of the Group

	2016	2015
Short-term employee benefits	$25,096	$20,468
Share-based payments	1,803	1,040
Total	$26,899	$21,508

8. Pledged assets

The following table lists assets of the Group pledged as security:

Item	Carrying amount 12/31/2016	Carrying amount 12/31/2015	Secured liabilities
Bond instrument investments for which no active market exists - non-current	$6,320	$6,085	Performance bond, comprehensive credit loan, import duty security
Other non-current assets	-	336	〃
Property, plant and equipment - land and building	189,328	193,462	〃
Property, plant and equipment - machine equipment	185,596	173,602	〃
Total	$381,244	$373,485	

9. Commitments and contingencies

1. On November 6, 2015, the company signed the "initiator cooperation agreement of establishing a joint corporation" with Shinva Medical Instrument Co., Ltd. and Shinva Healthcare Co., Ltd. The three parties will establish a joint venture company in China (company name: Shinva United Orthopedic Corporation) The estimated registered capital was CNY 300,000,000, and the registered capital for the initial period was CNY 200,000,000. The capital will be progressively injected by phases according to the actual operating demands. The Company's investments accounted for 49%; the investment for the initial period included 15% of technology price, a total of CNY 98,000 thousand. Shinva United Orthopedic Corporation was established on January 13, 2016. The company has invested CNY 24,500 thousand, CNY 49,000 thousand (including technology price CNY 30,000 thousand) and CNY 24,500 thousand on January 28, 2016, March 10, 2016, and October 12, 2016, respectively.

   According to the cooperation agreement, the Company's indirect ownership of its associate companies, United Medical Instrument Co., Ltd., United Medical Co., Ltd. and United Medical Technology (Shanghai) Co., Ltd. was sold to Shinva United Orthopedic Corporation at the transfer price CNY 26,903 thousand, which is the net worth according to the auditing result of a local accounting firm. As of now, CNY 3,542 thousand was collected, and the remaining balance CNY 23,361 thousand to be collected was deposited in a monitored bank account agreed bilaterally. After regulatory procedures are approved by the government, the bank will transfer the remaining balance.

2.The Company's significant contracts of purchasing fixed assets are as follows:

   December 31, 2016

Item	Contract total value	Paid amount	Unpaid amount
Plants and auxiliary equipment (phase-3 plant)	$227,600	$122,281	$105,319

   December 31, 2015

   None.

10. Loss due to major disasters

None.

11. Significant subsequent events

None.

12. Others

1. Categories of financial instruments

Financial assets

	12/31/2016	12/31/2015
Financial assets available for sale		
(including financial assets measured at cost)	$2,850	$2,850
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	477,865	731,386
Bond investments with no active market	6,320	6,085
Notes receivable	3,252	658
Accounts receivables (including related parties)	292,454	189,630
Other receivables (including related parties)	116,268	4,321
Subtotal	896,159	932,080
Total	$899,009	$934,930

Financial liabilities

	12/31/2016	12/31/2015
Financial liabilities at amortized cost:		
Short-term loan	$395,625	$72,839
Short-term notes and bills payable	50,000	-
Receivables (including related parties)	307,123	267,356
Long-term loan (including 1-year due)	193,082	185,604
Total	$945,830	$525,799

2. Financial risk management objectives and policies

The Group’s principal financial risk management objective is to manage the market risk, credit risk, and liquidity risk related to its operating activates.The Group identifies measures and manages the aforementioned risks based on the Group’s policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

3. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk, and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The foreign currency receivables and payables of the Group are denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Group also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Additionally, the Group's net investments in foreign subsidiaries are strategic investments, hence no hedge practices were applied in this regard.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for USD. The information of the sensitivity analyses as follows:

When NT$strengthens/weakens against USD by 1%, the profit or loss for the years of 2016 and 2015 is decreased/increased by NT$3,054 thousand and NT$318 thousand, respectively.

When NT$strengthens/weakens against RMB by 1%, the profit or loss for the years of 2016 and 2015 is decreased/increased by NT$2,311 thousand and NT$2,010 thousand, respectively.

When NT$strengthens/weakens against EUR by 1%, the profit or loss for the years of 2016 and 2015 is decreased/increased by NT$179 thousand and NT$191 thousand, respectively.

Interest rate risks

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans and receivables at variable interest rates, bank borrowings with fixed interest rates, and variable interest rates.

The Group manages its interest rate risk by applying a balanced portfolio of fixed and variable loans and borrowings and entering into interest rate swaps. Hedge accounting does not apply to these swaps as they do not qualify for criteria.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period, including investments and borrowings with variable interest rates and interest rate swaps. At the reporting date, a change of 1% of interest rate in a reporting period could cause the profit for the years 2016 and 2015 to decrease by NT$151 thousand and NT$367 thousand, respectively.

4. Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities (primarily bank deposits and other financial instruments).

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain customer's credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

As of December 31, 2016 and December 31, 2015, accounts receivables from top ten customers represent 50% and 52% of the total accounts receivables of the Group, respectively. The credit concentration risk of other accounts receivables is relatively insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counterparties.

5. Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, bank loan and convertible bonds. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	< 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
12/31/2016					
Loan	$432,730	$69,163	$40,987	$45,827	$588,707
Short-term notes and bills payable	50,000	-	-	-	50,000
Account Payable	307,123	-	-	-	307,123
12/31/2015					
Loan	$110,360	$72,332	$32,522	$43,229	$258,443
Accounts Payable	267,356	-	-	-	267,356

6. Fair values of financial instruments

(1) The methods and assumptions applied in determining the fair value of financial

instruments

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

A. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.

B. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.

C. Fair value of equity instruments without market quotations (e.g., private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (e.g., inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

D. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

E. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (such as Black-Scholes model) or other valuation method (such as Monte Carlo Simulation).

(2) Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, accounts receivables, accounts payable and other current liabilities whose carrying amount approximate their fair value, the fair value of the Group’s financial assets and financial liabilities measured at amortized cost is listed in the table below:

	Carrying amount		Fair value	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Financial assets				
Bond investments with no active market	$6,320	$6,085	$6,320	$6,085

Financial liabilities				
Long-term loans	$193,082	$185,604	$193,082	$185,604

(3) Fair value measurement hierarchy for financial instruments

Please refer to Note 12.8 for fair value measurement hierarchy for financial instruments of the Group.

7. Derivatives

Relevant information of the Group's possession of unqualified hedge accounting and premature derivatives (including forward exchange contract and embedded derivatives) as of December 31, 2016 and December 31, 2015 is as follows:

Embedded derivatives

The Company has issued convertible corporate bonds and identified with embedded derivatives, which were already detached from the main contract, and were dealt with measurement at fair value through profits or losses. Please refer to Note 6 for contractual information of this transaction.

8. Fair value hierarchy

(1) Definition of fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(2) Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

As of December 31, 2016:

None.

As of December 31, 2015:

None.

Transfer between Level 1 and Level 2 of fair value hierarchy

During the years of 2016 and 2015, there were no transfers between Level 1 and Level 2 of fair value hierarchy.

(3) Fair value hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value is disclosed

As of December 31, 2016

	Level 1	Level 2	Level 3	Total
Liabilities not measured at fair value but for which the fair value is disclosed:				
Long-term loans	$-	$-	$193,082	$193,082
Short-term notes and bills payable	-	-	50,000	50,000

As of December 31, 2015

	Level 1	Level 2	Level 3	Total
Liabilities not measured at fair value but for which the fair value is disclosed:				
Long-term loans	$-	$-	$185,604	$185,604

9. Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

Unit: thousand

	12/31/2016			12/31/2015		
	Foreign currency	Exchange rates	NT$	Foreign currency	Exchange rates	NT$
Financial assets						
Monetary items:						
USD	$9,745	32.2000	$313,796	$6,271	32.7750	$205,542
EUR	898	33.7000	30,276	1,451	35.6800	51,757
JPY	120	0.2736	33	285	0.2707	77
CHF	175	31.3800	5,491	35	33.0400	1,157
CNY	53,394	4.5920	245,186	40,469	4.9700	201,129
GBP	83	39.4000	3,285	97	48.4600	4,707
Financial liabilities						
Monetary items:						
USD	$260	32.3000	$8,396	$5,284	32.8750	$173,726
EUR	364	34.1000	12,418	905	36.0800	32,645
JPY	520	0.2776	144	560	0.2747	154
CHF	19	31.6700	601	1	33.3300	49
CNY	3,044	4.6420	14,129	24	5.0200	122
AUD	-	23.4000	-	3	24.1000	77

GBP	1	39.8200	27	-	48.8800	(3)

The Group's individual entity adopt various functional currencies, hence the disclosure of exchange profits or losses of functional financial assets and liabilities by respective significant currency is not applicable. As of December 31, 2016 and 2015, foreign exchange gains or losses were (NT$30,040) thousand and (NT$8,917) thousand, respectively.

The above information is disclosed based on the carrying amount of foreign currency (after conversion of functional currency).

10. Capital management

The primary objective of the Group’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

11. For the convenience of analysis, several accounting entries from previous financial statements have bee reclassified appropriately.

13. Other disclosure items

1. Related information on significant transactions

(1) Capital financing to others: see Table 1.
(2) Endorsement or guarantee for others: see Table 2.
(3) Marketable securities held at the end of current period (excluding investments in subsidiaries, associates, and joint control entities): see Table 3.
(4) Accumulated acquisition or disposal of individual marketable securities at costs or prices of at least NT$300 million or 20% of the paid-in capital: see Table 4.
(5) Acquisition of individual real estate at price of at least NT$300 million or 20% of the paid-in capital: None.
(6) Disposal of real estate at price of at least NT$300 million or 20% of the paid-in capital: None.
(7) Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital: see Table 5.
(8) Accounts receivable from related parties reaching NT$100 million or 20 percent of paid-in capital or more: None.
(9) Transactions of derivatives: see combined finances Note 6.13 and Note 12.
(10) Others:Business relations and significant transactions between parent and subsidiary companies, see Table 6.

2. Related information on investment businesses: see Table 7.

3. Related information on investments in China: see Table 8.

14. Unit information

1. The Group's primary income is from sales of hip/knee replacements, trauma-treatment products, and OEM products. According to the judgment of the management, the Group

belongs to a single operating unit.

2. Regional information

Revenue from external customers:

	2016	2015
Taiwan	$429,418	$312,029
Asia	446,570	568,832
America	393,435	397,510
Europe	100,705	104,189
Africa	13,212	10,013
Total	$1,383,340	$1,392,573

Non-current Assets:

	12/31/2016	12/31/2015
Taiwan	$1,333,313	$678,225
China	-	1,586
The United States	90,610	50,451
Europe	21,824	-
Japan	6,093	-
Total	$1,451,840	$730,262

2. Information about major customers

As of year 2016 and 2015, no individual customer's sales amount accounting for over 10% of operating income net in the consolidated income sheets; therefore, no disclosure shall apply.

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

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Table 1. Capital financing to other parties as of December 31, 2016: Unit: NT$1,000

No.	Lender	Borrower	Item	Whether being related parties	Highest amount in current period	Balance at the end of current period (approved cap by the Board of Directors)	Actual expenditure	Interest rate interval	Capital financing feature	Amount of transaction	Reason for short-term financing	Allowance for bad debt amount	Collateral		Cap of capital financiing by respective party	Capital financing Total Cap
													Name	Value		
0	United Orthopedic Corporation	United Medical (B.V.I.) Corporation	Accounts receivable - Related party	Yes	$10,000	$10,000	$-	0.99%~1.60%	Business features	$-	None	$-	None	$-	$-	$215,241
0	United Orthopedic Corporation	UOC America Holding Corporation	Accounts receivable - Related party	Yes	40,000	40,000	-	0.99%~1.60%	Business features	199,600	None	-	None	-	199,600	215,241
0	United Orthopedic Corporation	United Medical Instrument Co., Ltd.	Accounts receivable - Related party	Yes	30,000	30,000	-	0.99%~1.60%	Business features	276,446	None	-	None	-	215,241	215,241
0	United Orthopedic Corporation	United Orthopedic Corporation (Suisse) SA	Other accounts receivable - Related party	Yes	32,215	32,215	24,432	1.60%	Short-term financing	86,500	Operating turnover	-	None	-	86,500	215,241
1	United Medical (B.V.I.) Corporation	United Medical Instrument Co., Ltd.	Accounts receivable - Related party	Yes	10,000	10,000	-	0.99%~1.60%	Business features	-	None	-	None	-	-	107,620
2	UOC America Holding Corporation	UOC USA ,Inc	Accounts receivable - Related party	Yes	40,000	40,000	-	0.99%~1.60%	Business features	207,769	None	-	None	-	207,769	107,620

Note 1: The company's cap of financing and borrowings shall not exceed 30% of the company's paid-in capital.

Note 2: Financing to an individual party shall be limited within the bilateral business transaction amount over the last year.

Note 3: The subsidiary's cap of financing and borrowings shall not exceed 15% of the company's paid-in capital.

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

Table 2. Endorsement or guarantee for other parties as of December 31, 2016: Unit: NT$1,000

No.	Endorsement Guarantor Company name	Recipient of Endorsement or Guarantee Company name	Recipient of Endorsement or Guarantee Relation	Cap of endorsement or guarantee for a single enterprise	Highest endorsement or guarantee amount for current period	Endorsement or guarantee balance at the end of current period	Actual expenditure amount	Property-guaranteed endorsement or guarantee amount	Ratio of aggregated endorsement or guarantee amount to latest financial statement net worth	Endorsement or guarantee cap	Attributable to parent to subsidiary company endorsement or guarantee	Attributable to subsidiary to parent company endorsement or guarantee	Attributable to China endorsement or guarantee
0	United Orthopedic Corporation	UOC USA ,Inc.	100% Holding Sub-subsidiary	$215,241	$163,075	$163,075	$81,538	$-	9.21%	$358,734	Y	N	N
0	United Orthopedic Corporation	United Medical Instrument Co., Ltd.	Affiliated Company	215,241	65,230	-	-	-	-%	358,734	N	N	Y
0	United Orthopedic Corporation	United Medical Co., Ltd.	Affiliated Company	215,241	91,252	-	-	-	-%	358,734	N	N	Y

Note 1: The company's total sum of endorsement or guarantee shall not exceed 50% of the company's paid-in capital; to an individual enterprise, the endorsement or guarantee shall not exceed 30% of the company's paid-in capital.

Table 3: Marketable securities held at the end of current period (excluding investments in subsidiaries, associates, and joint control entities) as of December 31, 2016:

Unit: NT$1,000

	Marketable Security	Issuer of Marketable Security		The end of the period				
Company holding shares	Type and Name	Relations with the company	Accounting item	Number of Shares	Carrying amount	Shareholding Ratio%	Fair value	Note
United Orthopedic Corporation	Changgu Biotech Corporation	None	Financial assets carried at cost - non-current	285	$2,850	19.26	Note 1	

Note 1: No quoted prices in an active market, and their fair value cannot be reliably measured.

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

Table 4: Amount of accumulated acquisition or disposal of the same securities reaches NT$300 million or exceeds 20% of the paid-in capital:

Unit: NT$1,000/CNY 1,000

Buy/Sell Company	Marketable Security Type and Name	Accounting item	Counterparty	Issuer of Marketable Security Relations with the company	Beginning of the Period		Buy		Sell				End of the Period		
					Number of shares (thousand shares)	Amount	Number of shares (thousand shares)	Amount	Number of shares (thousand shares)	Selling price	Cost of Book Value	Gain (Loss) on Disposal	Number of shares (thousand shares)	Amount	Share holding ratio
United Orthopedic Corporation	Shinva United Orthopedic Corporation	Investments accounted for using the equity method	Shinva United Orthopedic Corporation	Affiliated Company	-	$-	98,000 (Note 1)	$487,520 (CNY 98,000) (Note 2)		$-	$-	$-	98,000 (Note 1)	$487,520 (CNY 98,000) (Note 2)	49

Note 1: The face value per share is CNY 1.

Note 2: Including technology price CNY 30,000 thousand, equivalent to NT$149,844 thousand.

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

Table 5: The purchase and sale with related parties amounted to NT$100 million or more than 20% of the paid-up capital

Unit: NT$1,000

Purchase (sales) Company	Counterparty	Relation	Trade Details				Unusual trade conditions and its reasons		Bills and accounts receivable (payable)		Remark
			Purchase (sales)	Amount	Ratio to total purchase (sales) goods (%)	Credit period	Price per Unit	Credit period	Balance	Ratio to total receivable (payable) (%)	
United Orthopedic Corporation	UOC America Holding Corporation	Parent/Subsidiary Company	Sales	$201,927	14.60%	90 days	Notes	Notes	$91,290	22.11%	
United Orthopedic Corporation	United Medical Instrument Co., Ltd.	Affiliated Company	Sales	276,446	19.99%	90 days	Notes	Notes	63,920	15.48%	
UOC America Holding Corporation	UOC USA, Inc.	Subsidiary/Sub-subsidiary Company	Sales	209,242	99.56%	90 days	Notes	Notes	94,092	100.00%	

Note: There is no significant difference from the normal trade.

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

Table 6. Business relations and significant transactions between parent and subsidiary companies: Unit: NT$1,000

No. (Note 1)	Name of trading partner	Trading relations	The relationship with trading partner (Note 2)	Transaction Status			
				Subjects	Amount	Trade conditions	Percentage of Consolidated Net Revenue or Ratio of Total Assets (Note 3)
2016							
0	United Orthopedic Corporation	UOC America Holding Corporation	1	Sales income	201,927	Note 4	14.60%
0	United Orthopedic Corporation	UOC America Holding Corporation	1	Accounts receivable	91,290	-	3.09%
0	United Orthopedic Corporation	United Orthopedic Corporation (Suisse) SA	4	Sales income	86,500	Note 4	6.25%
0	United Orthopedic Corporation	United Orthopedic Corporation (Suisse) SA	4	Accounts receivable	83,905	-	2.84%
1	UOC America Holding Corporation	UOC USA, Inc.	5	Sales income	209,242	Note 4	15.13%
1	UOC America Holding Corporation	UOC USA, Inc.	5	Accounts receivable	94,092	-	3.18%
2	United Orthopedic Corporation (Suisse) SA	United Orthopedic Corporation (France)	6	Sales income	53,181	Note 4	3.84%
2	United Orthopedic Corporation (Suisse) SA	United Orthopedic Corporation (France)	6	Accounts receivable	50,932	-	1.72%

Note 1: Business operating information between parent company and subsidiary shall be indicated in column number, number filled in as follows:

1. Fill in 0 for parent company.
2. Subsidiaries should be numbered from 1 and onward by the company type.

Note 2: Six types of relations with transaction parties are applicable; simply marking the type:

1. Parent - Subsidiary.
2. Subsidiary - Parent
3. Subsidiary - Subsidiary
4. Parent - Sub-subsidiary
5. Subsidiary - Sub-subsidiary
6. Sub-subsidiary - Sub-subsidiary

Note 3: For the percentage of transaction amount to consolidated total revenue or total assets, if the items belong to balance sheet, it is calculated by percentage of ending balance to consolidated total assets; if the items belong to profits/losses, it is calculated by percentage of interim accumulated amount to consolidated total revenue.

Note 4: The aforementioned operating income conditions and collection period have not significant differences with that of normal exporting customers (60 to 180 days).

Notes for combined financial statements of United Orthopedic Corporation and its subsidiaries (continued)

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

Table 7: Related information on investment businesses:

Unit: NT$1,000/USD 1,000/CHF 1,000/EUR 1,000/JPY 1,000

Investor	Investee Company	Located	Primary	Initial investment		Holding at the End of the Period			Investee Company Gains and Losses in the Current Period	Investment Gains and Losses Recognized in the Current Period	Note
Company Name	Name	Region	Business	End of the current period	End of previous year	Number of Shares	Ratio	Carrying amount			
United Orthopedic Corporation	United Medical (B.V.I.) Corporation	British Virgin Islands	Holding Company, Trading	$360,194	$360,194	11,400	100%	$128,694	$6,380	$6,380	Subsidiary
				(USD 11,400)	(USD 11,400)	(Note 1)					
United Orthopedic Corporation	UOC America Holding Corporation	British Virgin Islands	Holding Company, Trading	139,768	139,768	4,500	100%	53,543	2,073	2,073	Subsidiary
				(USD 4,500)	(USD 4,500)	(Note 1)					
United Orthopedic Corporation	UOC Europe Holding SA	Switzerland	Holding Company	50,420	-	1,500	75%	(456)	(12,965)	(11,949)	Subsidiary
				(CHF1,500)	-	(Note 3)					
United Orthopedic Corporation	United Biomech Japan	Japan	Trading, Wholesale	23,983	-	765	51%	16,451	(9,665)	(4,929)	Subsidiary
				(JPY 76,500)	-	(Note 6)					
United Medical (B.V.I.) Corporation	Lemax Co.,Ltd	British Virgin Islands	Holding Company	360,194	360,194	11,400	100%	123,547	6,483	6,483	Sub-subsidiary
				(USD 11,400)	(USD 11,400)	(Note 1)					
UOC America Holding Corporation	UOC USA, Inc.	USA	Trading, Wholesale	139,768	139,768	900	100%	134,016	(4,388)	(4,388)	Sub-subsidiary
				(USD 4,500)	(USD 4,500)	(Note 2)					
UOC Europe Holding SA	United Orthopedic Corporation (Suisse) SA	Switzerland	Trading, Wholesale	6,865	-	200	100%	8,026	(1,760)	(1,760)	Sub-subsidiary

				(CHF 200)	-	(Note 4)					
UOC Europe Holding SA	United Orthopedic Corporation (France)	France	Trading, Wholesale	7,442 (EUR 200)	- -	200 (Note 5)	100%	(6,718)	(13,797)	(13,797)	Sub-subsidiary

Note 1: The face value per share is USD 1,000.

Note 2: The face value per share is USD 5,000.

Note 3: The face value per share is CHF 1,000.

Note 4: The face value per share is CHF 1,000.

Note 5: The face value per share is EUR 1,000.

Note 6: The face value per share is JPY 50,000.

Notes for combined financial statements of United Orthopedic Corporation and its subsidiaries (continued)
(All Amounts Expressed In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Table 8. Related information on investments in China

Unit: NT$1,0

Investee company in China	Primary business	Paid-in capital	Investment method	Aggregated investment amount remitted from Taiwan at the beginning of current period	Amount remitted from Taiwan or recollected as of current period		Aggregated investment amount remitted from Taiwan at the end of current period	Investee company profit or loss for current period	Shareholding ratio of the company's direct or indirect investments	Profit or loss for the current period	Carrying amount of investmen for curren period
					Remit	Recollect					
Shinva United Orthopedic Corporation	Production and sales of orthopedic implants & joint replacements	Registered capital: CNY 200,000,000	(Note 1)	$ -	$487,520	$ -	$487,520 (CNY 98,000 thousand) (Note 3)	$(26,953)	49%	$(13,207)	$414,657
United Medical Co., Ltd.	Artificial implants, medical instruments & manufacturing equipment, joint replacements	Registered capital: USD 5,200,000	(Note 2)	$159,690 (USD 5,000 thousand)	-	-	$159,690 (USD 5,000 thousand)	9,990	-	9,990	
United Medical Instrument Co., Ltd.	International trade, medical precision instruments wholesale & retail, product after sales service	Registered capital: USD 6,000,000	(Note 2)	188,378 (USD 6,000 thousand)	-	188,378	-	-	-	-	
United Medical Technology (Shanghai) Co.,Ltd.	International trade, medical precision instruments wholesale & retail, product after sales service	Registered capital amount:	(Note 2)	12,126	-	12,126	-	-	-	-	

		USD 400,000		(USD 400 thousand)							

Investment amount remitted from Taiwan to China at the end of current period	Authorized investment amount by Investment Commission, MOEA	Investment amount cap in China according to Investment Commission regulations
$647,210 (USD 5,000 thousand) (CNY 98,000 thousand)	$847,714 (USD 5,000 thousand) (CNY 98,000 thousand)	$1,063,829

Note 1: Direct investment in China.
Note 2: Through a company in China(Shinva United Orthopedic Corporation) to reinvest in another company in China
Note 3: Includes the technical value of RMB 30,000 thousand

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

Appendix 8-1. The significant transactions of the third region businesses and reinvested Chinese companies that is directly or indirectly invested by the company are listed as below:

(1) Purchase amount and percentage, and ending accounts receivable balances and percentage: Unit:NT$1,000

Year	Company name	Purchase amount	Percentage to the company's purchase	Ending accounts receivable balances	Percentage %
2016	United Medical Co., Ltd.	$59,743	19.89%	$13,568	24.21%

(2) Sale amount and percentage, and ending accounts receivable balances and percentage:

Year	Company name	Sales amount	Percentage to the company's sales	Ending accounts receivable balances	Percentage %
2016	United Medical Instrument Co., Ltd.	$276,446	20.44%	$63,920	15.48%
2016	United Medical Co., Ltd.	27,335	2.02%	3,046	0.74%
2016	Shinva United Orthopedic Corporation	1,760	0.13%	1,674	0.41%

(3)Ending balance of endorsement, guarantee or collateral provided and purposes:

Please see Appendix 2 of Note 13 attached.

(4)Maximum balance of financing, ending balance, interest rate range and total interest in the period:

Please see Appendix 1 of Note 13 attached.

(5)Other transactions that have significant impact on the balance of the current period and financial status:

None

5. The Company's individual financial report audited and attested by a CPA for the past year

STATEMENT

For 2016 (January 1 to December 31, 2016), the affiliated businesses of this Company that need to be included as per the rules prescribed by the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" are the same as those included in the parent and subsidiary's consolidated financial statement as prescribed by the International Financial Reporting Standards No. 10 (IFRS 10). All information to be disclosed in the consolidated financial statements of the affiliated enterprises has already been disclosed in the consolidated financial statement of the parent company and its subsidiaries. Hence, the consolidated financial statements of the affiliated businesses are therefore not generated separately.

It's hereby declared

Company Name: United Orthopedic Corporation

Person in Charge: Lin, Yan-Shen

March 7, 2017

ACCOUNTANTS' AUDIT REPORT

To The United Orthopedic Corporation,

Audit opinion

We have audited the individual balance sheets of the United Orthopedic Corporation as of December 31, 2016 and 2015 and the related individual income statements, individual statements of changes in equity, individual cash flow statements and individual financial statement annotations (including major accounting policy summary) from January 1 to December 31, 2016 and 2015.

In our opinion, the individual financial statements referred to above present fairly, in all material aspects, the consolidated financial position of the United Orthopedic Corporation as of December 31, 2016 and 2015, and the individual results of their operations and their cash flows for the years ended December 31, 2016 and 2015, are in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for the Audit

We have audited the accounts in accordance with the Regulations Governing Auditing and Attestation of Individual Financial Statements by Certified Public Accountants and Generally Accepted Auditing Standards (GAAS). Our CPA will further explain the responsibilities of auditors during the audit of individual financial statements based on the principles mentioned below. The independent accountants of Ernst & Young will follow the ethical code of conduct for accountants and will be neutral in their approach to United Orthopedic Corporation in fulfilling their duties. We believe that the proofs for audit obtained are sufficient and appropriate and provide a basis for our opinion.

Key Audit Items

Key audit items refer to the most critical items in the 2016 individual financial statement of the United Orthopedic Corporation being audited by the accountants when performing their professional judgment. These items form part of the verification process of the overall individual financial statements and the audit opinion; hence, the CPA will not offer any separate opinion on them.

Inventory valuation

The net inventory of the United Orthopedic Corporation as of December 31, 2016, was NT$474,214,000, accounting for 17% of the individual assets, which is significant for individual financial statements. Hence, the accountants have determined inventory valuation as a key audit item. The audit procedure conducted included but is not limited to the following audit procedures: Interact with the management on the effectiveness of internal control followed to deal with drop in prices of inventory and loss due to inventory carryover. We have visited the company's warehouse to assess the conditions there and storage of inventories. We have evaluated the appropriateness of the management's accounting policy on idle and overdue inventories, including their identification. We have randomly picked inventory samples to audit their sales certificates, and validate the inventory valuation. Our accountants have also considered the appropriateness of inventory disclosure mentioned in Notes 5 and 6 of the individual financial statement.

Revenue evaluation

The primary products of the United Orthopedic Corporation are orthopedic implants for hip/knee replacement, trauma-treatment and OEM products, and the revenue recognized from their sales in 2016 was NT$1,352,145,000, which is significant in relation to the individual financial statement. Hence, the accountants consider inventory valuation as a key audit item. The audit procedure followed included is not limited to the following audit procedures: examine the appropriateness of the accounting policy on the revenue assessment. We have discussed with the management the effectiveness of internal control followed for the sales cycle. We have assessed the product types, regions and monthly gross profit ratio. We have also assessed the procedures followed on major returns and allowance, including the reasons for returns and allowance. We have also conducted sales cut-off tests before and after the balance sheet as of date. We have selected critical clients as samples to study the transaction criteria and validate the relevant certificates. Our accountants have also considered the appropriateness of revenue disclosure shown in Note 6 of the consolidated financial statement.

The responsibility of the management and governance units for the individual financial statements

To ensure that the individual financial statements do not contain material misstatements due to fraud or errors, the management is responsible for preparing fairly presented individual financial statements in accordance with Regulations on the Preparation of Financial Reports by Security Issuers to be in conformity with a pattern, and to maintain necessary internal controls.

In preparing the individual financial statements, the responsibility of the management includes the assessment of the ability of operating continuously of the United Orthopedic Corporation, disclosure of related matters, and the adoption of a consistent accounting pattern, unless it intends to liquidate the Company, terminate the business, or no practicable measures other than liquidation or termination of the business.

The governing units (including the Audit Committee or Supervisors) of the United Orthopedic Corporation are responsible for supervising the financial reporting procedures.

Responsibilities of the CPA in auditing the Individual Financial Statements

The CPA's objective while auditing the individual financial statements was to provide reasonable assurance to whether they contained any material misstatements due to fraudulence or errors and to issue the audit report. "Reasonable assurance" refers to a high level of credibility; nevertheless, our audit carried out according to GAAP cannot guarantee that material misstatement will be detected in the individual financial statements. There could still be material misstatements resulted from fraudulence or errors. If the misstated individual amounts or aggregated sums could influence the economic decisions made by the readers of the individual financial statements, it will be deemed as material.

We have exercised professional judgment and maintained professional skepticism while abiding by GAAS in our audit. The CPA has also executed the following tasks:

1. Identified and evaluated the likely risks from material misstatements in the individual financial statements as a result of fraudulence or errors, designed and executed proper countermeasures against risks identified, and also established sufficient and appropriate audit mechanism to serve as the basis for the auditor's report. As fraud may involve collusion, forgery, deliberate omissions, false statements, or violations of internal controls, the risks of material misstatements due to fraud is greater than that due to errors.

1. Obtaining necessary input on the internal control mechanism that is closely related to the auditing work and designing appropriate audit procedure without a view to express any opinion on the validity of the internal control of the United Orthopedic Corporation.

2. Have learnt about the internal control mechanism useful for auditing work and designed appropriate audit procedures without the intention to express any opinion

on the validity of the internal control of the United Orthopedic Corporation.

3. Evaluated the appropriateness of the accounting policies adopted by the management and the reasonableness of the accounting assessment and related disclosures made accordingly.

4. Based on the proofs for audit, the CPA made conclusions on the appropriateness of the use of going-concern accounting procedures and if any significant doubt exists about the capacity of the United Orthopedic Corporation to continue their operations or whether any significant uncertainty existed. If the CPA considers that material uncertainty exists in these matters or conditions, the CPA has to alert in their audit report the users of the individual financial statements to pay attention to relevant disclosures in the statements, or to revise the audit opinion when such disclosure is inappropriate. Our conclusion is based on the proof available for audit as of the date of the audit report, only that future events or situations may lead to the cessation of operations of the United Orthopedic Corporation.

5. Evaluate the overall expression, structure and content of the individual financial statements (including related notes) and if these statements present fairly the related transactions and events.

6. Obtain sufficient and appropriate proof for audit on the finances of the individual entities in the group to state our opinion on the individual financial statements. The CPA is responsible for guidance, supervision and implementation of the group's audit, and for developing audit report on the group.

Communications between the CPA and the company’s governing body consider the scope and the timing of the planned audit and significant audit findings, including any significant deficiencies in the internal controls during the audit process.

We have also provided the governing body with our statement of independence in accordance with the professional ethics of accountants and communicated them to it the facts and issues deemed to have an influence on our independence as accountants as well as other matters (including related protective measures).

In the communications between the CPA and the Company’s governing body, we have determined the key audit items from the 2016 individual financial statements of the United Orthopedic Corporation. Such matters have been explicitly highlighted in the audit report, but do not include information prohibited by law or, in extremely rare cases and with reasonable anticipation, where we have decided not to communicate about specific items as the negative effects of such disclosure would far exceed the benefits gained from the perspective of public interest.

Ernst & Young
Publication of corporate financial statements approved by the authorities
Audit Document No.:
(91) Securities and Futures Bureau (6) No. 144183
Financial Supervisory Committee (6) No. 0970038990

Chang, Chih-Ming

Accountant：

Huang, Chien-Che

March 7, 2017

United Orthopedic Corporation

Individual Balance Sheet

December 31, 2016 and December 31, 2015

Unit: NT$1,000

Assets			December 31, 2016		December 31, 2015	
Code	Accounting item	Note	Amount	%	Amount	%
	Current assets					
1100	Cash and cash equivalents	4 & 6. 1	$334,908	12	$662,414	28
1150	Net notes receivable	4 & 6. 4	3,252	-	658	-
1170	Net accounts receivable	4 & 6. 5	165,793	6	134,685	6
1180	Accounts receivable - related parties (net)	4, 6. 5 & 7	243,835	9	263,045	11
1200	Other accounts receivable	8	8,269	-	3,811	-
1210	Other accounts receivable - related parties (net)	7	24,213	1	5	-
130x	Inventory	4 & 6. 6	474,214	17	460,472	20
1410	Prepayment		22,332	1	28,777	1
1460	Non-current Assets held for sale (net)	4 & 6. 7	-	-	69,713	3
1470	Other current assets		331	-	608	-
11xx	Total current assets		1,277,147	46	1,624,188	69
	Non-current Assets					
1543	Financial assets carried at cost - non-current	4 & 6. 2	2,850	-	2,850	-
1546	Investment in debt instrument in non-active market - non-current	4, 6. 3 & 8	6,320	-	6,085	-
1550	Investment that adopts equity method	4 & 6. 8	613,615	22	55,582	2
1600	Property, plant and equipment	4, 6. 9 & 8	815,043	29	611,699	26
1780	Intangible assets	4 & 6. 10	32,613	1	15,134	1
1840	Deferred income tax assets	4 & 6. 23	51,483	2	34,411	2
1900	Other non-current assets	8	10,347	-	9,631	-
15xx	Total Non-current assets		1,532,271	54	735,392	31
1xxxx	Total assets		$2,809,418	100	$2,359,580	100

(Please refer to the notes of the parent consolidated financial statements)

Chairman: Lin, Yan-Shen　　Manager: Lin, Yan- Sheng　　Accounting Manager: Teng, Yuan-Chang

United Orthopedic Corporation
Individual Balance Sheet (continued)
December 31, 2016 and December 31, 2015

Unit: NT$1,000

Liabilities and Equity			December 31, 2016		December 31, 2015	
Code	Accounting item	Note	Amount	%	Amount	%
	Current liabilities					
2100	Short-term loan	4 & 6. 11	$315,000	11	$23,602	1
2110	Short-term notes and bills payable	4 & 6. 12	50,000	2	-	-
2150	Notes payable		2,100	-	3,740	-
2170	Accounts payable		40,364	1	56,259	2
2180	Accounts payable - related parties	4 & 7	13,568	-	48,744	2
2200	Other accounts payable		221,613	8	193,719	8
2230	Current income tax liabilities	4 & 6. 23	42,020	1	39,443	2
2300	Other current liabilities		4,677	-	3,147	-
2322	Long-term loan mature in one year	4 & 6. 14	37,105	1	37,521	2
21xx	Total current liabilities		726,447	24	406,175	17
	Non-current liabilities					
2540	Long-term loans	4 & 6. 14	155,977	6	148,083	7
2570	Deferred income tax liabilities	4 & 6. 23	-	-	4,714	-
2600	Other non-current liabilities		154	-	154	-
2630	Long-term deferred income	4 & 6. 8	130,739	5	-	-
2640	Net defined benefit liability - non-current	4 & 6. 15	22,483	1	27,405	1
2650	Credit balance of investments that adopt equity method	4 & 6. 8	456	-	-	-
25xx	Total non-current liabilities		309,809	12	180,356	8
2xxx	Total Liabilities		1,036,256	36	586,531	25
	Equity	4 & 6. 16				
3100	Capital					
3110	Capital - common stock		717,469	26	712,049	30
3130	Certificate of Entitlement to New Shares form Convertible Bond		-	-	5,420	-
	Total capital		717,469	26	717,469	30
3200	Capital reserve		915,406	33	912,988	39
3300	Retained earnings					
3310	Statutory surplus reserve		41,246	2	27,865	1
3350	Undistributed earnings		145,834	5	128,184	6
	Total retained earnings		187,080	7	156,049	7
3400	Other equity					
3410	Conversion difference of financial statements of foreign operations		(31,620)	(1)	7,567	-
3470	and directly related equity of non-current assets held for sale	4 & 6. 7	-	-	3,831	-
3491	Employee unearned remuneration	4 & 6. 17	(15,173)	(1)	(24,855)	(1)
	Total other equity		(46,793)	(2)	(13,457)	(1)
3xxx	Total Equity		1,773,162	64	1,773,049	75
	Total liabilities and equity		$2,809,418	100	$2,359,580	100

(Please refer to the notes of the parent consolidated financial statements)

Chairman: Lin, Yan-Shen Manager: Lin, Yan- Sheng Accounting Manager: Teng, Yuan-Chang

United Orthopedic Corporation

Individual Income Statement

January 1 to December 31, 2016 and 2015

Unit: NT$1,000

			2016		2015	
Code		Notes	Amount	%	Amount	%
4000	Operating Revenue	4 & 6. 18	$1,352,145	100	$1,129,436	100
5000	Operating costs	4 & 6. 6	582,789	43	475,003	42
5900	Gross profit		769,356	57	654,433	58
5910	Realized (Unrealized) profits from sales		(8,057)	(1)	(21,361)	(2)
5900	Gross profit		761,299	56	633,072	56
6000	Operating expenses					
6100	Marketing Expense		300,194	22	221,146	19
6200	Administrative Expense		123,213	9	119,726	10
6300	R&D Expenses		161,231	12	142,945	13
	Total operating expenses		584,638	43	483,817	42
6900	Operating Profit		176,661	13	149,255	14
7000	Non-operating income and expenses	4 & 6. 21				
7010	Other income		30,410	2	4,038	-
7020	Other profit and loss		(17,453)	(1)	6,216	1
7050	Financial cost		(4,568)	-	(7,124)	(1)
7070	Portion of profits and losses of the subsidiaries, affiliates and joint ventures that adopt equity method in recognition.		(21,632)	(2)	12,636	1
	Total non-operating income and expenses		(13,243)	(1)	15,766	1
7900	Net income before tax		163,418	12	165,021	15
7950	Income tax expenses	4 & 6. 23	(16,817)	(1)	(31,214)	(3)
8200	Current period net profit		146,601	11	133,807	12
8300	Other comprehensive gain or loss	4 & 6. 22				
8310	Items that will not be reclassified to profit or loss:					
8311	The amount to be measured again when the welfare plan is determined		(767)	-	(6,775)	(1)
8349	And income taxes relating to profit/loss items not to be reclassified		-	-	1,152	-
8360	Items that may be reclassified to profit or loss					
8361	Conversion difference of financial statements of foreign operations		(42,722)	(3)	(1,635)	-

8365	Equity directly relating to non-current assets held for sale		(4,616)	-	4,616	1
8399	Income tax relating to items that may be reassigned to profits and losses		4,320	-	(507)	-
	comprehensive income or loss (net value after tax) in this period		(43,785)	(3)	(3,149)	-
8500	Total amount of comprehensive profit/loss in the period		$102,816	8	$130,658	12
	Earnings per share (NT$)	4 & 6. 24				
9750	Basic earnings per share		$2.06		$2.30	
9850	Diluted earnings per share		$2.05		$2.23	

(Please refer to the notes of the parent consolidated financial statements)

Chairman: Lin, Yan-Shen General Manager: Lin, Yan-Shen Accounting Manager: Teng, Yuan-Chang

United Orthopedic Corporation
Individual Statement of Changes in Equity
January 1 to December 31, 2016 and 2015

Unit: NT$1,000

					Retained earnings		Other Equity			
		Capital	Bonds exchanging for stocks rights certificate	Capital reserve	Statutory surplus reserve	Undistributed Earnings	Conversion difference of financial statements of foreign operations	Equity directly relating to non-current assets held for sale	Employee unearned remuneration	Total equity
Code	Item	3100	3130	3200	3310	3350	3410	3470	3491	3xxxx
A1	Balances on January 1st, 2015	$559,761	$-	$346,230	$19,692	$76,251	$8,924	$-	$-	$1,010,858
	Surplus allocation and distribution in 2014									
B1	Appropriate statutory surplus reserve	-	-	-	8,173	(8,173)	-	-	-	-
B5	Cash dividend of common stock	-	-	-	-	(68,078)	-	-	-	(68,078)
D1	2015 Net Profit (Note1)	-	-	-	-	133,807	-	-	-	133,807
D3	Other comprehensive profit/loss in 2015	-	-	-	-	(5,623)	(1,357)	3,831	-	(3,149)
D5	Total amount of comprehensive profit/loss in the period	-	-	-	-	128,184	(1,357)	3,831	-	130,658
E1	Capital injection	128,000	-	460,800	-	-	-	-	-	588,800
I1	Convertible corporate bond conversion	18,648	5,420	70,229	-	-	-	-	-	94,297
N1	Share-based payment transaction - employee share purchase right	-	-	12,323	-	-	-	-	-	12,323
N2	Share-based payment transaction - restricted employee entitlement to new shares	5,640	-	23,406	-	-	-	-	(24,855)	4,191
Z1	Balance on December 31, 2015	$712,049	$5,420	$912,988	$27,865	$128,184	$7,567	$3,831	$(24,855)	$1,773,049
A1	Balance on January 1, 2016	$712,049	$5,420	$912,988	$27,865	$128,184	$7,567	$3,831	$(24,855)	$1,773,049
	Surplus allocation and distribution in 2015									
B1	Appropriate statutory surplus reserve	-	-	-	13,381	(13,381)	-	-	-	-
B5	Cash dividend of common stock	-	-	-	-	(114,803)	-	-	-	(114,803)
D1	2016 Net Profit (Note 2)	-	-	-	-	146,601	-	-	-	146,601
D3	Other comprehensive profit/loss in 2016	-	-	-	-	(767)	(39,187)	(3,831)	-	(43,785)
D5	Total amount of comprehensive profit/loss in the period	-	-	-	-	145,834	(39,187)	(3,831)	-	102,816
I3	Certificate of Entitlement to New Shares form Convertible Bond Conversion	5,420	(5,420)	-	-	-	-	-	-	-
M7	Changes in equity of ownership of subsidiaries	-	-	2,418	-	-	-	-	-	2,418
N2	Share-based payment transaction - restricted employee entitlement to new shares	-	-	-	-	-	-	-	9,682	9,682
Z1	Balance on December 31, 2016	$717,469	$-	$915,406	$41,246	$145,834	$(31,620)	$-	$(15,173)	$1,773,162

(Please refer to the notes of the parent consolidated financial statements)

(Note 1) The Directors and Supervisors' remuneration of NT$3,991 thousand and employees' remuneration of NT$23,947 thousand have been removed from the consolidated income statement.

(Note 2) The Directors and Supervisors' remuneration of NT$5,695 thousand and employees' remuneration of NT$23,061 thousand have been removed from the consolidated income statement.

Chairman: Lin, Yan-Shen General Manager: Lin, Yan-Shen Accounting Manager: Teng, Yuan-Chang

United Orthopedic Corporation
Individual Statement of Cash Flow
January 1 to December 31, 2016 and 2015

Unit: NT$1,000

Code	Item	2016 Amount	2015 Amount
AAAA	Cash flow from operating activities:		
A10000	Current net profit before tax	$163,418	$165,021
A20000	Adjustment items:		
A20010	Income/expense items that do not affect cash flow:		
A20100	Depreciation expense	76,126	64,913
A20200	Amortization expense	5,837	6,672
A20300	Bad debts recorded	6,839	-
A20400	Net benefit of the financial liabilities at fair value through profit and loss	-	(1,371)
A20900	Interest Expense	4,568	7,124
A21200	Interest Income	(3,863)	(1,620)
A21900	Share-based payment remuneration cost	9,682	16,514
A22300	Share of the loss (profit) of subsidiaries, affiliates and joint ventures recognized under equity method	21,632	(12,636)
A22500	Loss (gain) on disposal of property, plant and equipment	301	(367)
A23900	Unrealized sales profit	8,057	21,361
29900	Other income	(19,105)	-
A30000	Changes in assets and liabilities related operating activities		
A31130	Increases in bills receivable	(2,594)	(105)
A31150	Increases in accounts receivable	(37,947)	(15,533)
A31160	Accounts receivable - decreases in related parties	19,210	62,446
A31180	Decreases (increases) in other accounts receivable	(4,306)	5,176
A31190	Other accounts receivable - Decrease (increase) in stakeholder	(24,208)	813
A31200	Increases in inventories	(13,742)	(99,723)
A31220	Decreases (increases) in prepaid expenses	6,445	(14,364)
A31240	Decreases (increases) in other current assets	277	(557)
A32130	Increases (decreases) in bills payable	(1,640)	1,771
A32150	Increases (decreases) in accounts payable	(15,895)	13,796
A32160	Other accounts receivable - Increase (decrease) in stakeholder	(35,176)	45,484
A32180	Increases in other payables	27,274	40,435
A32230	Increases (decreases) in other current liabilities	1,530	(1,837)
A32240	Decreases in net defined benefit liability	(5,689)	(2,301)
A33000	Cash inflow generated by operation	187,031	301,112
A33100	Interest income received	3,711	1,659
A33500	Income Tax Paid	(31,707)	(23,766)
AAAA	Net cash inflow from operating activities	159,035	279,005
BBBB	Cash flow from investment activities		
B00600	Investment in debt instrument in non-active market	(235)	-
B00700	Dispose investment in debt instrument in non-active market	-	11,269
B01200	Financial assets acquired at cost	-	-
B01800	Acquisition of the investment using equity method	(412,079)	(94,866)
B02600	Disposal of noncurrent assets held for sale	-	-
B02700	Acquisition of property, plant and equipment	(279,782)	(121,479)
B02800	Real property, plant, and equipment punishment	11	937
B03700	Increases in refundable deposits	(1,052)	(4,067)
B03800	Decreases in refundable deposits	-	-
B04500	Intangible assets acquired	(23,316)	(918)
B06800	Decrease in other non-current assets	336	1,341
BBBB	Net cash outflow from investing activities	(716,117)	(207,783)
CCCC	Cash from financing activities		
C00100	Increases in short-term loans	291,398	-
C00200	Decreases in short-term loan	-	(78,375)
C00500	Increases in short-term notes and bills payable	50,000	-
C01600	Long-term loans borrowed	7,478	-
C01700	Long-term loans repaid	-	(60,661)
C03000	Increases in guarantee deposits	-	-
C04500	Cash dividend payout	(114,803)	(68,078)
C04600	Capital Increase	-	588,800
C05600	Interest Paid	(4,497)	(5,730)
CCCC	Net cash inflow from financing activities	229,576	375,956
EEEE	Increases (decreases) in cash and cash equivalents as of current period	(327,506)	447,178
E00100	Balance of Cash and Cash Equivalents, Beginning of Year	662,414	215,236
E00200	Balance of Cash and Cash Equivalents, End of Year	$334,908	$662,414

(Please refer to the notes of the parent consolidated financial statements)

Chairman: Lin, Yan-Shen General Manager: Lin, Yan-Shen Accounting Supervisor: Teng, Yuan-Chang

United Orthopedic Corporation
Parent Company's Financial Statements and Notes
January 1 to December 31, 2016
And January 1 to December 31, 2015
(Expressed in Thousands of New Taiwan Dollars unless Otherwise Stated)

1. Company Profile

United Orthopedic Corporation ("the Corporation") was established on March 5, 1993. Its primary operations include research, development, production, manufacturing, and sales of orthopedic implants and orthopedic surgical instruments; manufacturing equipment, special metal and plastics material, as well as import/export businesses of the products mentioned earlier.

The Corporation's common shares were publicly listed on the Taipei Exchange (TPEx) on July 5, 2004, and began transactions on September 29, 2005. Its registered office and the main operations base are located at No.57, Yuanqu 2nd Rd., East Dist., Hsinchu City, Taiwan (R.O.C.).

2. Approval date and procedures of the financial statements

The 2016 and 2015 parent company's financial statements have been published by the Board of Directors on March 7, 2017.

3. Application of New and Amended International Financial Reporting Standards and Interpretations

1. New promulgation, revised or amended guidelines approved by the Financial Supervisory Commission (“FSC”), but not yet adopted by the Group on the date of issuance of the Group’s financial statements are listed below:

(1) IAS 36 "Impairment of Assets" (Amendment)

This amendment relates to the amendment issued in May 2011, which requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been assessed or reversed during the period. The amendment also requires detailed disclosures on how the fair value less costs of disposal has been arrive at when an impairment loss has been assessed or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions made in evaluation. The interpretation is effective for fiscal year beginning on or after January 1, 2014.

(2) IFRIC 21 “Levies”

This interpretation provides guidance on the assessment of a liability for a levy imposed by the government (both for levies accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain). The interpretation is effective for fiscal year beginning on or after January 1, 2014.

(3) IAS 39 “Financial Instruments: Recognition and Measurement” (Amendment)

Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The interpretation is effective for fiscal year beginning on or after January 1, 2014.

(4) IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions calculated according to a fixed percentage of salary. The amendment is effective for fiscal year beginning on or after July 1, 2014.

(5) Improvements to International Financial Reporting Standards (2010-2012 cycle)

IFRS 2 "Share-based Payment"
The annual improvements amend the definitions of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendment prospectively applies to share-based payment transactions for which the grant date is July 1, 2014 or later.

IFRS 3 "Business Combinations"
The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 Provisions, Contingent Liabilities and Contingent Assets or other IFRSs as appropriate", other contingent considerations not within the scope of IFRS 9 shall be measured at fair value on each reporting date and changes in it be shown in profit or loss account; (3) amending the classification requirements of IFRS 9 Financial Instruments to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes shown in profit or loss account depending on the requirements of IFRS

9. The amendments apply prospectively to business combinations for which the acquisition date is on or after July 1, 2014.

IFRS 8 "Operating Segments"

The amendments require an entity to disclose the assessment made by the management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity reconciles only the total of the reportable segments' assets to the entity's assets if the segmental assets are reported regularly. The amendment is effective for fiscal year beginning on or after July 1, 2014.

IFRS 13 "Fair Value Measurement"

The amendment to the Basis for Conclusions of IFRS 13 clarifies that while deleting paragraph B5.4.12 of the IFRS 9 Financial Instruments and paragraph AG79 of IAS 39 the Financial Instruments: Recognition and Measurement as consequential amendments to IFRS 13 Fair Value Measurement, the IASB did not intend to change the assessment requirements for short-term receivables and payables.

IAS 16 "Property, Plant and Equipment"

The amendment clarifies that while an item of property, plant and equipment is revalued, the accumulated depreciation on the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for fiscal year beginning on or after July 1, 2014.

IAS 24 "Related Party Disclosures"

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendment is effective for fiscal year beginning on or after July 1, 2014.

IAS 38 "Intangible Assets"

The amendment clarifies that when an intangible asset is revalued, the accumulated amortization as on the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for fiscal year beginning on or after July 1, 2014.

(6) Improvements to International Financial Reporting Standards (2011-2013 cycle)

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 3 "Business Combinations"

This amendment clarifies that paragraph 2(a) of IFRS 3 Business Combinations exclude the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3, and the exception applies only to the financial statements of the joint venture or the joint operation itself. The amendment is effective for fiscal year beginning on or after July 1, 2014.

IFRS 13 "Fair Value Measurement"

The amendment clarifies that paragraph 52 of IFRS 13 includes the exception of scope for assessing the fair value of a group of financial assets and financial liabilities on net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. The amendment is effective for fiscal year beginning on or after July 1, 2014.

IAS 40 "Investment Property"

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property, separate application of both standards independent of each other is required. The amendment is effective for fiscal year beginning on or after July 1, 2014.

(7) IFRS 14 "Regulatory Deferral Accounts"

IFRS 14 permits first-time adopters to continue to assess amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for fiscal year beginning on or after January 1, 2016.

(8) IFRS 11 “Joint Arrangements” (Accounting for Acquisitions of Interests in Joint Operations)

The amendments provide new guidance on accounting the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combination accounting in IFRS 3 “Business Combinations”, and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendment also requires certain disclosures. The amendment is effective for fiscal year beginning on or after January 1, 2016.

(9) IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" — Interpretation of Acceptable Methods of Depreciation and Amortization

The amendment says that the use of revenue-based methods to calculate depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendment also clarified that the revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in a few limited circumstances. The amendment is effective for fiscal year beginning on or after January 1, 2016.

(10) IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants

The IASB has decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 Property, Plant and Equipment, because their operation is similar to that of manufacturing. Consequently, the amendments include them in the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendment is effective for fiscal year beginning on or after January 1, 2016.

(11) IAS 27 "Separate Financial Statements" -- Equity Method in Separate Financial Statements

The IASB has restored the option, removed from the options in 2003, of using the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity’s separate financial statements. This amendment removes the only difference between separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions. IFRS 14 is effective for fiscal year beginning on or after January 1, 2016.

(12) Improvements to International Financial Reporting Standards (2012-2014 cycle)

IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”
The amendment clarifies that a change in method of disposal of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather is a

continuation of the original plan. The amendment also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or for distribution to owners. The amendment is effective for fiscal year beginning on or after January 1, 2016.

IFRS 7 "Financial Instruments: Disclosures"
The amendment clarifies that a service contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset derecognized in its entirety under IFRS 7 Financial Instruments: Disclosures are required. The amendment also clarifies that the inclusion of IFRS 7 disclosure relating to the offsetting of financial assets and financial liabilities in the condensed interim financial report would depend on the requirements under IAS 34 Interim Financial Reporting. The amendment is effective for fiscal year beginning on or after January 1, 2016.

IAS 19 "Employee Benefits"
The amendment clarifies that under IAS 19.83 the market depth of high-quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country in which the obligation is located. The amendment is effective for fiscal year beginning on or after January 1, 2016.

IAS 34 "Interim Financial Reporting"
The amendment clarifies the meaning of “elsewhere in the interim financial report” under IAS 34 in which the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever included in the greater interim financial report. The other information in the interim financial report must be available to users on the same conditions as the interim financial statements and at the same time. The amendment is effective for fiscal year beginning on or after January 1, 2016.

(13) IAS 1 "Presentation of Financial Statements" (Amendment)

The amendments (1) clarify that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different nature or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarify that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity presents additional subtotals, (3) clarify that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) remove the examples of income tax accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating the significant accounting policies, and (5) clarify that the share of OCI of associates and joint ventures accounting for the equity method must be presented in aggregate as a single line item, classified between items that will or will not be subsequently reclassified to profit or loss account. The amendment is effective for fiscal year beginning on or after January 1, 2016.

(14) IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IAS 28 "Investments in Associates and Joint Ventures" -- Investment Entities: Applying the Consolidation Exception

The amendments (1) clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, (2) clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are assessed at fair value, and (3) allow the investor, while applying the equity method, to retain the fair value assessment applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendment is effective for fiscal year beginning on or after January 1, 2016.

This new promulgation, revised or amended standards and interpretations issued by IASB and approved by the FSC will be applicable for fiscal year beginning on or after January 1, 2017. According to the Group's evaluation, the new standards, amendments or interpretations have no material impact on the Group.

2. New promulgation, revised or amended standards and interpretations issued by IASB but yet to be approved by the FSC on the date of issuance of the Group’s financial statements are listed below:

(1) IFRS 15 "Revenue from Contracts with Customers"

The core principle of the new Standard is for companies to assess the revenue to show the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Companies adopting the core principle to recognize revenue shall

(a) Step 1: Identify the Contract(s) with a Customer
(b) Step 2: Identify the Performance Obligations in the Contract
(c) Step 3: Determine the Transaction Price

(d) Step 4: Allocate the Transaction Price to the Performance Obligations in the Contract

(e) Step 5: Evaluate the Revenue When (or As) the Entity Satisfies a Performance Obligation

The purpose of such disclosures is to provide sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for fiscal year beginning on or after January 1, 2018.

(2) IFRS 9 "Financial Instruments"

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 Financial Instruments (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement：Financial assets are assessed at amortized cost, fair value through profit or loss account, or fair value through other comprehensive income, based on both the entity’s business model for managing the financial assets and the financial asset’s contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that ‘own credit risk’ adjustments are not considered in profit or loss account.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on the significant increase in credit risk since initial assessment.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for fiscal year beginning on or after January 1, 2018.

(3) IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" -- Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture. IFRS 10 requires full profit or loss assessment on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is considered in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is considered only to the extent of the unrelated investors' interests in the associate or joint venture.

In addition, the effective date of this amendment has been determined; however, an advanced adoption is still applicable.

(4) IFRS 16 "Leases"

The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for most leases in the balance sheets. Moreover, lessors continue to classify leases as operating or finance. The standard is effective for fiscal year beginning on or after January 1, 2019.

(5) IAS 12 Recognition of deferred tax assets for unrealized losses (Amendment)

The amendment clarifies the assessment methods of deferred tax assets derived from unrealized losses. It is effective for fiscal year beginning on or after January 1, 2017.

(6) Disclosure initiative (amendment to IAS 7 "Statement of Cash Flows")

The amendment refers to the increased reconciliation information at the beginning and end of the period with respect to the fundraising activities relating to liabilities. Its effective for fiscal year beginning on or after January 1, 2017.

(7) Interpretations of IFRS 15 "Revenue from Contracts with Customers"

The amendment mainly clarifies on how to identify contractual obligations, how to determine a company as a principal or an agent, and how to determine authorized income to be treated at a specific point of time or considered progressively. The amendment is effective for fiscal year beginning on or after January 1, 2018.

(8) Amendment to IFRS 2 "Share-based Payment"

This amendment: (1) Clarifies that if the basic delivery transaction of the stocks purchased in cash have vested conditions (Service conditions or non-market performance conditions), then the vested conditions others than market value conditions may not be considered when estimating the share appreciation equities on the assessment day. Vested conditions be included in the consideration of liabilities by adjusting the amount of share appreciation equities. (2) Clarifies that when the tax regulations require companies to settle in equity tools, tax should be withheld. Other than the net settlement characteristics mentioned previously, the remaining qualify for equity-settled share-based payment transaction, and (3) If the terms and conditions of a cash-settled share-based payment transaction are modified it becomes an equity-settled share-based payment transaction, and the transaction is considered as an equity-settled transaction from the date of the modification. The transaction is assessed by reference to the fair value of the equity instruments granted on the modification date and is considered in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as on the modification date is nullified on that date. Any difference between the carrying amount of the liability nullified and the amount considered in equity on the modification date is shown immediately in profit or loss account. The amendment is effective for fiscal year beginning on or after January 1, 2018.

(9) Applying IFRS 9 Financial Instruments with IFRS 4 "Insurance Contracts" (Amendments to IFRS 4)

The amendment helps resolve the issue arising from the difference between IFRS 9 "Financial Instruments" effective date (January 1, 2018) and the new insurance contract standard effective date (later than 2020) to be published by IASB. The amendment allows an enterprise to lower specific impacts while issuing the insurance contract within the scope of IFRS 4 prior to IFRS 9 "Financial Instruments" and the new insurance contract standard takes effect. The amendment proposed two approaches, (i) overlay, and (ii) deferral approaches. The overlay approach enables entities to eliminate the accounting impacts of profit or loss while applying IFRS 9 prior to the effective date of new insurance contract standards. The deferral approach enables qualified entities to select deferral IFRS 9 before 2021 (i.e., applying IAS 39 before new insurance contract standards take effect).

(10) Transfers of Investment Property (Amendments to IAS 40 "Investment Property")

The amendment added regulations relating to transfer of investment property, and clarified that when the property complies or no longer complies with the definition of the investment property, and has the proof of purpose change, entities shall transfer the property to investment property or transfer out of investment property, and the proof of administrative authority's intention to change, instead of purpose change. The amendment is effective for fiscal year beginning on or after January 1, 2018.

(11) IFRS Annual Improvements 2014-2016

IFRS 1 "First-time Adoption of International Financial Reporting Standards"
The amendment revised and added transitional provisions for partial standards revision, and removed Appendix E from IFRS 1 short-term exemptions for first-time adopters. The amendment is effective for fiscal year beginning on or after January 1, 2018.

IFRS 12: Disclosure of Interests in Other Entities
The amendment clarifies that the disclosures required in IFRS 12 (with the exception of B10-B16) also apply to interests held for sale and discontinued operations in accordance with IFRS 5. The amendment is effective for fiscal year beginning on or after January 1, 2017.

IAS 28: Investments in Associates and Joint Ventures
The amendment clarifies that when the investment in the associate or joint venture is held by, or is held indirectly through venture capital bodies, mutual funds, unit trusts and similar entities including investment-linked insurance funds, those investments in associates and joint ventures may be assessed at fair value in profit or loss account in accordance with the IFRS 9 Financial Instruments. In addition, if the enterprise is not an investment entity, and it owns equities in the associates or joint ventures, when the enterprise employs the equity method to the associate or joint venture, it should select the fair value assessment to maintain the associate or joint venture' equity in its subsidiary by each associate or joint venture. The amendment is effective for fiscal year beginning on or after January 1, 2018.

(12) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

The interpretation explains that on applying Paragraph 21 and 22 of IAS 21 "The Effects of Changes in Foreign Exchange Rates", it is required to determine the rate of exchange on the date of the transaction for non-currency assets/ liabilities relating to the original assessment of assets, expenses or income (or any part of them), and foreign currency derecognition and payment (receipt) of advance. The transaction date refers to the date of non-currency assets/ liabilities resulting from the entity's original assessment of the advance in foreign currency (receipt). If there are multiple receipts or payments of advance, an individual shall decide the transaction date for each receipt or payment of advance. The interpretation is effective for fiscal year beginning on or after January 1, 2018.

These standards or interpretations have been published by IASB, but not yet approved by the FSC. The actual application date should follow the FSC regulations. The Company is currently evaluating the potential impact of the newly published or amended standards, or interpretations as per points (4)~(7), and if unable to reasonably estimate the impacts of these standards or interpretations, the rest of the newly published or amended standards, or interpretations have no significant impacts on the Company.

4. Description of Significant Accounting Policies

1. Statement of compliance

The 2016 and 2015 individual financial statements of the company are prepared in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers.

2. Basis of preparation

The company prepares the parent's financial statement in accordance with the guidelines for the preparation of financial statements of securities issuers. In accordance with Article 21 of the guidelines for the preparation of financial statements of securities issuers, the amount allocated in income (or loss) of individual financial reports, consolidated financial reports prepared, and other comprehensive income (or loss) attributable to shareholders of the parent Company are the same. Shareholders' equity in individual financial reports and equity attributable to shareholders of the parent Company in the consolidated financial reports are the same. Therefore, investments in subsidiaries in the individual financial report are expressed as "investments that adopt equity method", and the assessments are adjusted as necessary.

The individual financial statements have been prepared on a historical cost basis, except for financial instruments that have been assessed at fair value. The individual financial statements are expressed in thousands of New Taiwan Dollars ("NTD") unless otherwise stated.

3. Foreign currency transactions

The individual financial statement of the company is expressed in NT$, the functional currency.

Transactions in foreign currencies are recorded by their respective functional currency rates on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the functional currency closing rate of exchange ruling on the reporting date. Non-monetary items assessed at fair value in a foreign currency are converted using the exchange rates on the date when the fair value is determined. Non-monetary items assessed at historical cost in a foreign currency are converted using the exchange rates as on the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on converting them are included in profit or loss account in the period in which they arise except for the following:

(1) Exchange differences from foreign currency borrowings in the acquisition of a qualifying asset to the extent they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalization.

(2) Foreign currency items within the scope of IAS 39 Financial Instruments: Assessment and evaluation are accounted for based on the accounting policy for financial instruments.

(3) Differences in exchange arising on a monetary item that forms part of the reporting entity's net investment in a foreign operation is considered initially in other comprehensive income and reclassified from equity to profit or loss account on disposal of the net investment.

When a gain or loss on a non-monetary item is considered in other comprehensive income, any exchange component of that gain or loss is shown in other comprehensive income. When a gain or loss on a non-monetary item is shown in profit or loss account, any exchange component of that gain or loss is shown in profit or loss.

4. Conversion of foreign currency in financial statements

Each foreign entity in the company may determine its functional currency, and use it to state in its financial statements. The assets and liabilities of foreign operations are converted into NT$at the closing exchange rate on the date of balance sheet reporting and their income and expenses are converted at an average exchange rate for the period. The exchange differences arising on the conversion are shown in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange difference relating to that foreign operation, shown in other comprehensive income and shown as a separate component of equity, is reclassified from equity to profit or loss account when the gain or loss on disposal is considered. In case of loss of control, material impact, or joint control of foreign operations, it is treated as disposal even if it continues to own part of the equity.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences considered in other comprehensive income is adjusted in accordance with "investments that adopt equity method" shall not be considered as profit and loss. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant control or joint control, only the proportionate share of the cumulative amount of the exchange differences shown in other comprehensive income is reclassified to profit or loss account.

Any goodwill and any fair value adjustment to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are considered as assets and liabilities of the foreign operation and shown in its functional currency.

5. Distinction between current and non-current assets

An asset is classified as current when any of following scenarios apply, and all other assets are classified as non-current:

(1) The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.

(2) The Group holds the asset primarily for the purpose of trading.

(3) The Group expects to realize the asset within twelve months after the reporting period.

(4) The asset is cash or cash equivalent unless its restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current when any of following scenarios apply, and all other liabilities are classified as non-current:

(1) The Group expects to settle the liability in its normal operating cycle.

(2) The Group holds the liability primarily for the purpose of trading.

(3) The liability is due to be settled within twelve months after the reporting period.

(4) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counter-party, result in its settlement by the issue of equity instruments do not affect its classification.

6. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value (include fixed-term deposits that mature in 12 months from the date of acquisition).

7. Financial instruments

Financial assets and liabilities are considered when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities within the scope of IAS 39 Financial Instruments: Assessment and evaluation are considered initially at fair value, or add or minus from such fair value, and in the case of investments not at fair value through profit or loss, directly attributable to transaction costs.

(1) Financial assets

The Company accounts for purchases or sales of financial assets in a routine way on the trading date.

Financial assets of the Group are classified at fair value in the profit or loss account, available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets initially itself.

<u>Financial assets at fair value through profit or loss account</u>

Financial assets at fair value through profit or loss account include those held for trading and determined initially at fair value in profit or loss account.

A financial liability is classified as held for trading if:

A. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

B. on initial assessment is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

C. is a derivative (except for a derivative that is a financial guarantee contract or considered an effective hedging instrument).

If a contract has one or more embedded derivatives, the entire hybrid (combined) contract may be treated as a financial asset at fair value through profit or loss account or a financial asset may be considered at fair value through profit or loss account when it might result in more relevant information.

A. it eliminates or significantly reduces inconsistency in assessment; or

B. a group of financial assets/liabilities or both are managed and performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on the investment is provided internally on that basis to key management personnel.

Financial assets at fair value through profit or loss account are assessed at fair value with changes in fair value shown in profit or loss account. Dividends or interest on financial assets at fair value is shown in profit or loss account (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their fair value cannot be reliably assessed, then they are assessed at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, on the reporting date.

Financial assets available for sale

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are shown in profit or loss account. Subsequent assessment of the available-for-sale financial assets at fair value are shown in equity until the investment is derecognized, at which time the cumulative gain or loss is shown in profit or loss account.

If equity instrument investments are not traded actively on the exchange and their fair value cannot be reliably assessed then they are classified as financial assets assessed at cost on the balance sheet and carried at cost net of accumulated impairment losses, if any, on the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group on initial assessment shows as available for sale, classified at fair value in profit or loss account, or those for which the holder may not recover all of its initial investment.

Loans and receivables are shown separately on the balance sheet as receivables or bond investments for which no active market exists. After initial assessment, such financial assets are subsequently shown at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method of amortization is shown in profit or loss account.

Impairment of financial assets

The Group assesses on each reporting date for any objective evidence for impairment of a financial asset other than those assessed at fair value through profit or loss. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more occurrences of loss after the initial assessment of the asset and that the loss impacts the estimated future cash flows of the financial asset. The carrying amount of the financial asset if impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is shown in profit or loss account.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

A. significant financial difficulty of the issuer or obliger; or

B. a breach of contract, such as a default or delinquency in interest or principal payments; or

C. probable that the borrower will enter into bankruptcy or other financial reorganization; or

D. the disappearance of an active market for that financial asset because of financial difficulties.

The company first assesses whether there are diminished objective evidences in the significant individual financial assets. The individual financial assets that are not significant are assessed in groups. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it will include the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is assessed as the difference between the assets' carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest applicable to discount the future cash flows for the purpose of assessing the impairment loss.

Receivables are written off together with the associated allowance when there is no realistic prospect of a future recovery. If, in a subsequent year, the estimated impairment loss increases or decreases because of a development after the impairment, the previously assessed impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovered amount is credited to profit or loss account.

Where equity investments are classified as available-for-sale, and there is evidence of impairment, the cumulative loss, assessed as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously shown in profit or loss account, is deleted from other comprehensive income and shown in profit or loss. Impairment losses on equity investments are not reversed in profit or loss; increase in their fair value after impairment is shown directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount considered for impairment is the cumulative loss assessed as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously shown in profit or loss. Future interest income continues to accrue based on the reduced carrying amount of the asset, using the rate of interest to discount the future cash flows for the purpose of assessing the impairment loss. The interest income is shown in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to a development taking place after the impairment loss was shown in profit or loss, the impairment loss is reversed through profit or loss.

<u>Derecognition of financial assets</u>

A financial asset that is owned by the company is derecognized when:

A. The rights to receive cash flows from the asset have expired.

B. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred.

C. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been shown in other comprehensive income is now shown in profit or loss account.

(2) Financial liabilities and equity

Classification between liabilities and equity

The Group classifies the liabilities and equity instruments issued as financial liability or equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that has a residual interest in the assets of an entity after deducting all of its liabilities. The equity instrument that is realized by the company is arrived at by subtracting the direct issuance cost to the cost of obtaining it.

Hybrid instruments

The convertible bonds issued by the Company are considered along with financial liabilities and equity composition elements in accordance with the contract clauses. With respect to convertible bonds issued, prior to the segregation of the equity element, it is required to evaluate whether the embedded buy/sell right economic characteristics and risks are closely related to the primary debt products.

In relation to liability, which is not associated with derivatives, the fair value should be assessed by market interest rate evaluation with comparable features and non-convertible bonds. On conversion or before redemption and clarification, the partial amount is classified as the amortized financial liability assessed at cost. Regarding the embedded financial instruments not closely related to risks of other main contract economic characteristics (e.g., the execution price for embedded buy option and redeem option can barely equal to amortized cost of each execution date of liability products after confirmation), except from the equity element, they should be classified as liability, and assessed at fair value in the profit or loss account during the subsequent period. The amount of equity is determined by fair value of convertible bonds minus liabilities, and its carrying amount will not be assessed during the following accounting period. If the issued convertible bonds have no equity component, IAS 39 "Financial Instruments: Recognition and Measurement" hybrid instruments shall be adopted.

Based on the proportion of liability and equity composition amortized from the original assessment of the convertible bonds, the transaction costs be amortized in the composition of liability and equity.

When the holders of convertible bonds exercise their conversion right before the due date, the carrying amount of the liability component shall be adjusted to the carrying amount on conversion, serving as the account posting basis for issuing ordinary shares.

Financial liabilities

Financial liabilities in the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial liabilities at fair value through profit or loss or financial liabilities assessed at amortized cost on initial assessment.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include those held for trading and are identified on initial assessment at fair value through profit or loss account.

A financial liability is classified as held for trading if:

A. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

B. on initial evaluation it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

C. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract has one or more embedded derivatives, the entire hybrid (combined) contract may be shown as a financial liability at fair value through profit or loss; or a financial liability may be shown at fair value through profit or loss account while doing so results in more relevant information, because either:

A. it eliminates or significantly reduces an evaluation or assessment inconsistency; or

B. a group of financial assets, financial liabilities or both are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the investment is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss account including interest paid is shown in profit or loss.

If the financial liabilities at fair value through profit or loss are not quoted prices on an active market and their fair value cannot be reliably assessed, then they are classified as financial liabilities assessed at cost on the balance sheet and carried at cost as on the reporting date.

<u>Financial liabilities at amortized cost</u>

Financial liabilities assessed at amortized cost include interest-bearing loans and borrowings that are subsequently assessed using the effective interest rate method after initial evaluation. Gains and losses are shown in profit or loss account while ignoring the liabilities as well as through the effective interest rate amortization process.

Amortization cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

<u>Derecognition of financial liabilities</u>

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

When an existing financial liability is replaced by another between the company and the lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is shown in profit or loss account.

(3) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

8. Derivatives

The derivative financial instruments held or issued by the company are for the purpose of hedging its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments, which are classified as derivative financial assets or liabilities for hedging.

Derivative financial instruments are initially shown at fair value on the date on which a derivative contract is entered into and are subsequently reevaluated at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when it is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss account, except for the effective portion of cash flow hedges, which is considered in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value shown in profit or loss account.

9. Fair Value Assessment

Fair value refers to the price that would be received while selling an asset or paid to transfer a liability in an orderly transaction between market participants on the assessment date. Fair value assessment assumes the transactions of asset selling and liability transferring will take place in one of the following markets:

(1) Primary market of the asset or liability, or
(2) if no primary market exists, take the most beneficial market of the asset or liability;

Primary or most beneficial markets must be accessible by the company to make transactions.

Fair value assessment of assets and liabilities adopts the assumption used by market participants in valuing assets or liabilities. The assumption considers market participants are seeking the best economic benefits.
Fair value assessment of non-financial assets considers the ability to generate economic benefits demonstrated by market participants in making the best use of the assets, or by selling to another market participant, who will make the best use of them.

The company adopts the valuation technique applicable under related circumstances and with a sufficiency of data to assess the fair value and maximize the use of observable entries and minimize the use of unobservable entries.

10. Inventories

Inventories to be assessed at the lower end of cost and net realizable value.

Cost refers to the expenses to make inventories ready for available-for-sale or available-for-production status and location.

Raw material—consider actual purchase cost; adopt weighed average method.

Finished goods and work in progress—including direct materials, labor and fixed production expenses amortized by normal productivity, but excluding the cost of loan.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to effect the sale.

11. Non-current assets held for sale and discontinued operations.

Non-current assets held for sale or disposal refer to that under the current circumstances they can be sold based on normal conditions or business protocols, and they is possible to sell them within one year. The classification of non-current assets held for sale or disposal is assessed at the lower end of the price using carrying amount and fair value less the disposal cost.

During the reporting period and the previous reporting year, income and expenses of discontinued operations in the comprehensive income statements are still separately reported on after-tax basis and continued operations. Even after the Group has disposed of its subsidiaries, non-controlling equity is still reserved. Only the after-tax profit or loss of discontinued operation will be solely listed in the comprehensive income statements.

Once the property, plant and equipment, and intangible assets are shown as held for sale, no depreciation or amortization is applicable.

12. Investments accounted for using the equity method

The company's investments in subsidiaries are expressed as "investments that adopt equity method" in accordance with Article 21 of the Preparation Guidelines of Financial Statements of Securities Issuers, so that the allocated amount in the income (loss) of individual financial reports, consolidated financial reports prepared, and the other comprehensive income (loss) attributable to shareholders of the parent company is the same, and the Shareholders' equity in individual financial reports and the equity attributable to shareholders of the parent company in consolidated financial reports is the same. The main reasons for this adjustment are due to the difference in processing "Consolidated financial statements" in accordance with IFRS 10, and the applicability of IFRS for different tiers of companies, and to whether debit or credit items in "investments that adopt equity method", "Share of profit and loss of subsidiaries, affiliated companies, and joint companies that adopt equity method", or "Other comprehensive profits and losses of subsidiaries , affiliated companies, and joint companies that adopt equity method".

The company's investment in its affiliates is accounted for by using the equity method other than those that meet the criteria to be classified as held for sale. An affiliate company is an entity that has significant influence over the company.

Under the equity method, the investments in the affiliate companies are carried to the balance sheet at cost and adjusted thereafter for the post-acquisition change in the company's share of net assets of the affiliate companies. After the interest in the affiliate companies is reduced to zero, additional losses are provided for, and a liability is considered only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the affiliate companies. Unrealized gains and losses resulting from transactions between the company and the affiliate companies are eliminated to the extent of the company's related interest in the affiliate company.

When changes in the net assets of an affiliate company take place and are not considered in profit or loss account or other comprehensive income and do not affects the company's percentage of ownership interests in the affiliate company, the company considers such changes in equity based on its percentage of ownership interest. The resulting capital surplus will be reclassified in profit or loss account at the time of disposing of the affiliate companies on a pro-rata basis.

When the affiliate companies issue new stock, and the company’s interest in an affiliate company is reduced or increased if the company fails to acquire newly issued shares in the affiliate company proportionate to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is considered in Additional Paid-in Capital and Investment in affiliate company. When the interest in the associate or joint venture is reduced, the cumulative amounts previously shown in other comprehensive income are reclassified to profit or loss account or under appropriate heads. The capital surplus shown is reclassified in profit or loss account on a pro-rata basis when the company disposes of the affiliate company.

The financial statements of the affiliate companies are prepared for the same reporting period as of the company. Where necessary, adjustments are made to bring the accounting policies in line with those of the company.

The company determines on each reporting date whether there is any objective evidence for the investment in the affiliate company to be impaired in accordance with IAS 39 Financial Instruments: Recognition and Measurement. If it is so, the Group calculates the amount of impairment as the difference between the recoverable amount of the affiliate company and its carrying value and shows the amount in the "share of profit or loss of an affiliate company" in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. If the recoverable amount mentioned adopts the use value of the investment, the company estimates it in accordance with the estimations below:

(1) The company's share of the present value of the estimated future cash flows expected to be generated by the affiliate companies, including the cash flows from the operations of the associate or joint venture and the proceeds on the ultimate disposal of the investment; or

(2) The present value of the estimated future cash flows expected to arise from its ultimate disposal and dividends to be received from the investment.

Because goodwill that forms part of the carrying amount of an investment in an affiliate company is not separately assessed, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

On loss of significant influence over the affiliate company, the company assesses and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the affiliate company on loss of significant influence and the fair value of the retaining investment and proceeds from disposal is shown in profit or loss.

The company’s investment in its joint control entity is accounted for by using the equity method other than that that meets the criteria to be classified as held for sale. Joint control entity refers to companies, partnerships or other entities that the company jointly control and involve with establishing companies, partnerships, and other entities.

13. Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the evaluation criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced periodically, the company records such parts as individual assets with specific maturity and depreciation method, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 Property, plant and equipment. When a major inspection is made, its cost is shown in the carrying amount of the plant and equipment as a replacement if the assessed criteria are satisfied. All other repair and maintenance costs are shown in profit or loss as incurred.

Depreciation is calculated based on the following methods:

Depreciation of forging die of tooling equipment is calculated on a production basis.

Except for forging die of tooling equipment, the rest of the depreciation is calculated on a straight-line basis over the estimated economic life of the following assets:

Building and construction	3～50 years
Machinery equipment	10～15 years
Tooling equipment (except for forging die)	3～5 years
Transportation equipment	5 years
Information equipment	3 years
Other equipment	5 years
Leasehold improvements	Considering the shorter one of the leasing years or the useful life

An item of property, plant and equipment and any significant part initially recognized is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset is shown in profit or loss account.

The assets' residual value, useful life and methods of depreciation are reviewed on each financial year end and adjusted prospectively, if appropriate.

14. Lease

The company is the lessee

Finance leases refer to transfer of all the risks and benefits incidental to ownership of the leased item to the Group, and are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are shown in profit or loss account.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are shown as an expense on a straight-line basis over the lease term.

The company is the leasor

Leases in which the company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and shown over the lease term on the same basis as the rental income. Rental revenue generated from the operating lease is shown over the lease term using the straight-line method. Contingent rents are shown as revenue in the period in which they are earned.

15. Intangible assets

Intangible assets acquired are assessed separately on initial assessment at cost. The cost of intangible assets acquired in a business combination is its fair value as on the date of acquisition. Following initial assessment, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in profit or loss account for the year in which the expenditure is incurred.

The useful life of intangible assets is assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication of its impairment. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in the accounting estimates.

Intangible assets with indefinite useful life are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine if the indefinite life is supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are assessed as the difference between the net disposal proceeds and the carrying amount of the asset and are shown in profit or loss account when the asset is derecognized.

Intangible assets under development—R&D cost

Expense is considered when R&D cost is incurred. If the expenses of an individual project at the development phase meet the following conditions, they are shown as intangible assets:

(1) The intangible asset of the development has reached technological feasibility and is available for use or sale.

(2) Intend to complete the asset and is capable of using or selling it.

(3) The asset will generate future economic benefits.

(4) Have sufficient resources to complete the asset.

(5) Expenses during the development phase can be assessed reliably.

The development expense of capitalization, after the original assessment, is evaluated at cost, i.e., taking the cost to deduct aggregated amortization and aggregated impairments to get the carrying amount. During the development period, the asset will undergo impairment tests on an annual basis. On development completion and attaining the status of ready for use, it will be amortized within the period of forecast future benefit.

Computer software

Computer software is amortized on a straight-line basis over the estimated useful life (1-5 years)

The company's accounting policy on intangible assets are as follows

	Intangible assets under development	Computer software
Useful life	Finite	Finite
Use of amortization method	Amortized on a straight-line basis over the forecast sales period for the related projects	Amortized on a straight-line basis over the estimated useful life

Internal production or external acquisition	Internal production	External acquisition

16. Impairment of non-financial assets

The company assesses whether all assets that qualify for the "Impairment of Assets" in accordance with IAS 36 have any indication of impairment at the end of each reporting period. If any such indication exists, or when annual impairment testing for an asset is required, the company conducts the impairment test of the individual assets or the cash-generating unit to which the asset belongs. An asset's recoverable amount is the higher of its or of the cash-generating units ("CGU") fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made by the company on each reporting date for any indication that previously assessed impairment losses may no longer exist or may have decreased. If such indication exists, the company estimates the asset's or cash-generating unit's recoverable amount. A previously assessed impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been noticed for the asset in prior years.

A cash-generating unit, or groups of such units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of any indication of impairment. If an impairment loss is to be considered, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units), and then to the other assets of the unit (group of units) on pro-rata basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is shown in profit or loss.

17. Loan costs

Loan costs are directly related to the assets from acquisition, construction or production, becoming part of the asset cost in capitalization. All the other loan costs are shown in expense occurring over the period. Loan costs include interests and other costs arise from capital borrowings.

18. Post-employment benefits

The retirement regulations are applicable to all employees' o the company and domestic subsidiaries which have been hired through official procedure. The retirement fund is managed by the Supervisory Committee of Labor Retirement Reserve and deposited in the special account for the retirement fund. The pension mentioned is deposited in the name of the Supervisory Committee of Labor Retirement Reserve, which is completely unrelated to the company, and hence its record is not included in the consolidated financial statements.

The component of the company towards employee pension contribution shall not be less than 6% of the employee's monthly salary. The amount of contribution shall be recorded as the expenses for the current period.

The post-employment benefit of the defined contribution plan at the end of the annual reporting period shall be shown in the actuarial report. The net defined benefit liability (asset) reassessed includes any changes in the planned asset remuneration and its upper limit, and the amount of net interest of the net defined benefit liability (asset) is deducted, as well as actuarial profit and loss. When net defined benefit liability (asset) reassessment takes place, it will be shown under other comprehensive profit and loss, and is shown in reserved earnings. The earlier service cost is the changed value when the plan has revised or narrowed and generate the current value of defined benefit obligation. The earlier occurrence of the following two events will be considered in the expense account:

(1) When the plan is revised or narrowed down, and
(2)When the Group considers the related reorganization cost or resignation benefits.

The net interest of the net defined benefit liability (asset) is determined by multiplying it by discount rate. Both were determined at the beginning of the annual reporting period, including further consideration of changes in deposits and benefit payout for net defined benefit liability (asset).

19. Share-based payment transactions

The cost of equity-settled transactions between the Company is considered based on the fair value of the equity instruments granted and is determined by using an appropriate pricing model.

Such transactions are considered together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense considered for equity-settled transactions on each reporting date until the vesting date reflects the extent of the vesting period and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense considered as at the beginning and end of that period.

No expense is considered for awards that do not ultimately vest except for equity-settled transactions where vesting is conditional on a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense considered is the expense when the terms had not been modified, if the original terms of the award are met. An additional expense is considered when any modification increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as assessed on the date of modification.

Where an equity-settled award is cancelled, it is treated as if it is vested on the date of cancellation, and any expense not yet shown for the award is considered immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement on the date it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as explained in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The cost of restricted stocks issued is considered as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Company recognized the unearned employee salary which is a transitional contra equity account; the balance in the account will be considered as salary expense over the passage of the vesting period.

20. Revenue assessment

Revenue is considered to the extent of economic benefits that will flow to the company and the revenue can be reliably assessed. Revenue is assessed at the fair value of the consideration received or receivable. The following specific assessment criteria must also be met before revenue is considered:

<u>Sale of goods</u>

Revenue from the sale of goods is considered when all the following conditions are satisfied: the significant risks and rewards of ownership of the goods have passed to the buyer; neither continuing managerial involvement nor effective control over the goods sold have been retained; the amount of revenue can be assessed reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred in respect of the transaction can be assessed reliably.

Interest Income

For all financial assets assessed at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and shown in profit or loss account.

Dividend income

Dividend income is considered when the Group’s right to receive the payment is proven.

21. Government grants

Government grants are considered by the company when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Where the grant relates to an asset, it is considered as deferred income and released to income in equal amounts over the expected useful life of the related asset. When the grant relates to an expense item, it is considered as income over the period necessary to match the grant on a systematic basis to the costs intended to compensate.

Where the company receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the statement of comprehensive income over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. Where loans or similar assistance are provided by governments or its institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is considered as additional government grant.

22. Income tax

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are assessed at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items considered in other comprehensive income or directly in equity is shown in other comprehensive income or equity and not in profit or loss account.

The 10% surtax on undistributed retained earnings is considered as income tax expense in the subsequent year when the distribution proposal is approved at the Shareholders' meeting.

Deferred income tax

Deferred tax is provided based on temporary differences, on the reporting date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are considered for all taxable temporary differences, except:

(1) Where the deferred tax liability arises from the initial assessment of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

(2) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and where the differences are not reverse in the foreseeable future.

Deferred tax assets are considered for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent of probable taxable profit available against deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, except:

(1) Where the deferred tax asset relating to deductible temporary difference arises from the initial assessment of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

(2) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are considered only to the extent of reversal of probable temporary differences in the foreseeable future and taxable profit available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at tax rates likely to be applicable in the year when the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted on the reporting date. The assessment of deferred tax assets and deferred tax liabilities reflects the implications of tax that follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to components considered outside the profit or loss account is considered outside profit or loss account; deferred tax items are considered in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed on each reporting date and are considered accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the company's individual financial statements requires the management to make judgments, estimates and assumptions on the impact of the reported revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in material adjustment of the carrying amount of the asset or liability affected at a future date.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty on the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are as follows:

1. Valuation of inventories

While estimating the net realizable value of the inventory the following conditions are considered: impairment of actuarial, all or partial out-of-date or dropping selling price, while estimating the most reliable evidence of the available inventory net realizable value. See Note 6 for more details.

2. Post-employment benefit plan

The current value of the defined pension cost and defined benefit obligation of post-employment benefit plan depend on the actuarial valuation, which involves various assumptions, including increase and decrease in discount rate and the expected salary, etc. For more details on the assumptions made to assess the defined pension cost and defined benefit obligation, please see Note 6.

3. Share-based payment transactions

The cost of equity-settled transaction between the Company and the employees is assessed on the fair value of equity instrument on the settlement date. Estimating the fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions on them. The assumptions and models used for estimating the fair value for share-based payment transactions are shown in Note 6.

4. Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of the existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already made. The income tax recorded is reasonably estimated on the possible auditing results of the operations at the tax authorities across the country. Such provisions are based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group Company's domicile.

Deferred tax assets are considered for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent of likely taxable profit or of sufficient taxable temporary differences against which unused tax losses, unused tax credits or deductible temporary differences can be offset. The deferred tax assets determined are based on the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6 for more details on unrecognized deferred income tax assets, as of 31 December, 2016.

6. Important accounting items

1. Cash and cash equivalents

	12/31/2016	12/31/2015
Cash on hand	$61	$51
Checking deposits and demand deposit	159,701	473,503
Time deposits	175,146	188,860
Total	$334,908	$662,414

2. Financial assets measured at cost - non-current

	12/31/2016	12/31/2015
Available-for-sale financial assets - stocks	$2,850	$2,850

(1) The fair value of the above investments in unlisted entities is not reliably assessable as the variability in the range of reasonable fair value

measurements is significant for the investment and the probabilities of the various estimates within the range cannot be reasonably assessed and used while assessing fair value. Therefore, these investments are assessed at fair value, but rather at costs.

(2) Financial assets of the Company assessed at cost were not pledged.

By the end of December 31, 2016, the investment amount for Changgu Biotech Corporation is NT$2,850 thousand, acquiring 285,000 shares, and the shareholding ratio is 19.26%.

3. Bond investments with no active market

	12/31/2016	12/31/2015
Time deposits	$6,320	$6,085
Non-current	$6,320	$6,085

The Company has not pledged bond investment in active markets, please refer to Note 8 for more details.

4. Notes receivable

	12/31/2016	12/31/2015
Notes receivable--arising from operation	$3,252	$658
Less: Allowance for bad debts	-	-
Total	$3,252	$658

Notes receivables of the Company were not pledged.

5. Account receivables and account receivable - stakeholder

	12/31/2016	12/31/2015
Accounts receivable	$172,870	$134,923
Less: Allowance for bad debts	(7,077)	(238)
Subtotal	165,793	134,685
Account receivable --stakeholder	243,835	263,045
Total	$409,628	$397,730

Account receivables of the company were not pledged.

The company's credit period to the customers is generally 60-180 days. The movement in the provision for impairment of trade receivables is as follows (please refer to Note 12 for credit risk disclosure):

	Individually Assessed Impairment loss	Collectively Assessed Impairment loss	Total
1/1/2016	$-	$238	$238
Charge/reversal for the current period	-	6,839	6,839
Write off	-	-	-
12/31/2016	$-	$7,077	$7,077
1/1/2015	$-	$238	$238
Charge/reversal for the current period	-	-	-
Write off	-	-	-
12/31/2015	$-	$238	$238

The analysis of net overdue period of account receivables and account receivable - stakeholder are as follows:

	Neither past due	Past due but not impaired --accounts receivable					
	nor impaired	<=30 days	31-60 days	61-90 days	91-120 days	121-365 days	Total
12/31/2016	$391,105	$16,123	$2,304	$20	$26	$50	$409,628
12/31/2016	338,906	29,084	23,401	801	5,398	140	397,730

6. Inventories

	12/31/2016	12/31/2015
Product	$625	$1,907
Finished goods	296,284	299,245
Work-in-process	127,159	113,645
Raw material	50,146	45,675
Total	$474,214	$460,472

(1) The cost of inventories considered as expenses by the company is listed below:

Item	2016	2015
Cost of sales	$582,789	$475,003

(2) The inventories mentioned earlier were pledged.

7. Non-current assets held for sale

As noted in Note 9 of the individual financial report, and as mentioned in 1, the Company sold 100% of the equity in Sinopharm United Medical Device Co., Ltd, United Medical Instrument Co., Ltd, and United Medical Technology (ShangHai) Co., Ltd. Therefore, those equities are shown as non-current assets held for sale and are separately shown in the individual balance sheet.

8. Investments accounted for using the equity method

	12/31/2016		12/31/2015	
Investee company name	Amount	Shareholding Ratio	Amount	Shareholding Ratio
Invest in subsidiaries:				
United Medical (B.V.I.) Corporation	$128,964	100%	$-	-
UOC America Holding Corporation	53,543	100%	55,582	100%
United Biomech Japan	16,451	51%	-	-
Investment in the associate:				
Shinva United Orthopedic Corporation	414,657	49%	-	-
Subtotal of assets	613,615		55,582	
Invest in subsidiaries:				
UOC Europe Holding SA	(456)	75%	-	-
Subtotal of liabilities	(456)		-	
Total	$613,159		$55,582	

(1) Investment in subsidiaries

Investments in subsidiaries are shown as "investments that adopt equity method" in individual financial report, and are adjusted as necessary.

(2) Investment in the associate

Information of associate that has significant impact on the Company is as follows:

Company name: Shinva United Orthopedic Corporation

Relation: The enterprise is involved in production of products and sales relating to the company's industry chain. Considering the integration of upstream and downstream businesses, we have decided to invest in this enterprise.

Primary operation place (registration country): China

Fair value with open market quotation: Shinva United Orthopedic Corporation is not a listed company, and is not listed on any securities exchange.

Following is the summarized financial information and adjustment of the investment carrying amount:

	105.12.31
Current assets	$530,679
Non-current Assets	477,395
Current liabilities	(110,567)
Non-current liabilities	-
Equity	897,507
Shareholding of this Company	49%
Subtotal	439,778
Inter-company transaction elimination and adjustment	(25,121)
Carrying amount of investment	$414,657

	105.1.1~ 105.12.31
Operating Revenue	$-
Continuing operations Net income	(26,953)
Other comprehensive gain or loss	-
Current comprehensive gain or loss	-

The investments in the associate mentioned earlier have no liabilities or capital commitment as of December 31, 2016, nor pledged affairs.

The company has invested CNY 30,000 thousand, equivalent to NT$149,844 thousand in the associate by way of technology support at a price considered as long-term deferred income. Starting from the service provision date, it is amortized on average for three years. By the end of December 31, 2016, NT$19,105 thousand was already amortized.

9. Property, plant and equipment

	Land	Building and construction	Machinery equipment	Tooling equipment	Information equipment	Leasehold improvements	Other equipment	Unfinished constructions and equipment to be tested	Total
Cost:									
105.1.1	$41,855	$194,886	$371,399	$41,604	$10,063	$10,409	$134,451	$27,841	$832,508
Additions	-	245	8,896	13,159	1,428	-	22,225	233,829	279,782
Disposals or	-	-	(11,209)	(1,983)	(2,965)	(2,257)	(8,527)	-	(26,941)

retirements									
Reclassification	45,908	19,064	44,086	12,012	-	-	3,688	(124,758)	-
12/31/2016	$87,763	$214,195	$413,172	$64,792	$8,526	$8,152	$151,837	$136,912	$1,085,349
104.1.1	$41,855	$182,565	$316,668	$35,187	$11,494	$6,435	$108,449	$27,081	$729,734
Additions	-	3,299	5,631	5,633	1,594	3,974	29,812	71,536	121,479
Disposals or retirements	-	-	(3,970)	(280)	(3,025)	-	(11,430)	-	(18,705)
Reclassification	-	9,022	53,070	1,064	-	-	7,620	(70,776)	-
12/31/2015	$41,855	$194,886	$371,399	$41,604	$10,063	$10,409	$134,451	$27,841	$832,508
Depreciation									
105.1.1	$-	$17,003	$124,255	$16,067	$5,543	$5,501	$52,440	$-	$220,809
Depreciation	-	5,668	34,054	8,904	2,192	1,759	23,549	-	76,126
Disposals or retirements	-	-	(11,209)	(1,679)	(2,957)	(2,257)	(8,527)	-	(26,629)
Reclassification	-	-	-	-	-	-	-	-	-
12/31/2016	$-	$22,671	$147,100	$23,292	$4,778	$5,003	$67,462	$-	$270,306
104.1.1	$-	$12,002	$100,069	$9,034	$6,053	$4,167	$42,706	$-	$174,031
Depreciation	-	5,001	28,146	7,313	2,515	1,334	20,604	-	64,913
Disposals or retirements	-	-	(3,960)	(280)	(3,025)	-	(10,870)	-	(18,135)
Reclassification	-	-	-	-	-	-	-	-	-
12/31/2015	$-	$17,003	$124,255	$16,067	$5,543	$5,501	$52,440	$-	$220,809
Net carrying amount:									
12/31/2016	$87,763	$191,524	$266,072	$41,500	$3,748	$3,149	$84,375	$136,912	$815,043
12/31/2015	$41,855	$177,883	$247,144	$25,537	$4,520	$4,908	$82,011	$27,841	$611,699

(1) The Company's building composition consists of the main building, electric engineering and refurbishment engineering, etc., and their depreciation period is evaluated by their useful life of , 50, 20 and 5 years, respectively.

(2) Property, plant and equipment were pledged, please refer to note 8.

10. Intangible assets

	Computer software Costs	Development expenditure	Total

Cost:			
1/1/2016	$32,876	$12,886	$45,762
Additions -- separate acquisition	4,970	18,346	23,316
Others	(22,251)	-	(22,251)
12/31/2016	$15,595	$31,232	$46,827
1/1/2015	$31,958	$12,886	$44,844
Additions - separate acquisition	918	-	918
12/31/2015	$32,876	$12,886	$45,762
Amortization and impairment:			
1/1/2016	$26,644	$3,984	$30,628
Amortization	4,614	1,223	5,837
Others	(22,251)	-	(22,251)
12/31/2016	$9,007	$5,207	$14,214
1/1/2015	$20,831	$3,125	$23,956
Amortization	5,813	859	6,672
12/31/2015	$26,644	$3,984	$30,628
Net carrying amount:			
12/31/2016	$6,588	$26,025	$32,613
12/31/2016	$6,232	$8,902	$15,134

11. Short-term loan

	12/31/2016	12/31/2015
Credit loan	$315,000	$23,602
Interest rate range (%)	0.9900-1.0659	0.7868-0.8523

The unused bank credit line of the company as of 2016 and December 31, 2015 is 606,800 thousand NT$and 373,398 thousand NT$, respectively.

12. Short-term notes and bills payable

	12/31/2016	12/31/2015
Short-term notes and bills payable	$50,000	$-

Interest rate (%)	1.0780	-

13. Bonds payable

	12/31/2016	12/31/2015
Domestic unpledged bonds payable	$-	$-
Less: Liabilities due within one year	-	-
Long-term domestic convertible bonds payable	$-	$-

(1) Domestic convertible bonds payable

	12/31/2016	12/31/2015
Liability elements:		
Carrying amount of domestic convertible bonds payable	$-	$200,000
Converted amount	-	(200,000)
Discount of domestic convertible bonds payable	-	-
Subtotal	-	-
Less: Liabilities due within one year	-	-
Net	$-	$-
Embedded derivatives	$-	$-
Equity elements	$-	$-

On February 6, 2013, the company issued domestic non-pledge convertible bonds at face interest rate 0%. The convertible bonds are assessed based on contract clauses, and the composition elements include primary debt, embedded derivatives (option of redemption for the issuer, and an option of requesting the issuer's redemption), and equity elements (bondholders have the option of requesting to convert into issuer's ordinary shares). Primary issuance clauses are as follows:

Total amount of issuance: NT$200,000 thousand. Face amount per equity: NT$100 thousand. The issuance is in full carrying amount.

Issuance period: from February 6, 2013 to February 6, 2016.

Critical clauses for redemption:

A. On the next day after the convertible bonds issued for one month full (March 7, 2013) till 40 days prior to the due date (December 27, 2015), if the Company's ordinary shares closing price has exceeded 30% of the converted price for 30 business days in a roll, the Company should announce to reclaim all bonds circulating externally in cash by the bond carry amount.

B. If from the day next to their issuance, the convertible bonds circulate externally at lower than NT$20,000 thousand (10% of the original issue amount), the company should repurchase them in cash at full value for a whole month (March 7, 2013) and 40 days prior to the due date (December 27, 2015).

C. On February 6, 2015, the bond holders can request the Company to redeem all or partial corporate bonds at the face value.

Methods of conversion:

A. Convertible target: Ordinary shares of the Company.

B. Conversion period: From March 7, 2013 to January 27, 2016, the bond holders can request for conversion into the Company's ordinary shares in lieu of cash payout.

C. Converted price and adjustment: The converted price on issuance was set as NT$41.80 per share. When it comes to the converted price adjustment in accordance with the issuance clauses for the Company's ordinary shares, the converted price is subject to change in accordance to the formula stipulated in the issuance clauses. Conversion price as of December 31, 2015 was NT$39.30 per share.

D. Redemption on maturity: When the corporate bonds are due and not settled yet, the repayment should be made in cash at face value.

Also, all the corporate bonds were converted as of December 31, 2015 at a total amount of NT$200,000 thousands.

14. Long-term loan

Long-term loan details for the years ended 2016 and December 31, 2015 are as follows:

Creditor	12/31/2016	Interest rate %	Repayment period and method
Taiwan Cooperative Bank - Hsinchu Science Park Branch	$19,376	1.5500	The first instalment of the loan repayable between January 29, 2014 and January 29, 2019, was paid on January 29, 2015. The balance of the loan will be amortized over 17 quarters at an average amount of NT$2,153 thousands.
〃	54,857	1.4500	The first instalment of the loan repayable between September 18, 2013 and October 31, 2031, was paid on September 18, 2014. On an average a sum of NT$914 thousand of the principal will be amortized over 70 quarters.
〃	27,294	1.5500	The first instalment of the laon repayable between December 30, 2013 and December 30, 2018, was paid on December 30, 2014. On an average, a sum of NT$3,412 thousand of the principal will be amortized over 17 quarters.
〃	64,000	1.6000	The first instalment of the loan repayable between September 2, 2016 and September 2, 2021 was paid on

			September 2, 2017. A sum of NT$3,765 thousands of the principal will be amortized on average over 17 quarters.
CTBC Bank	17,275	1.5700	The first instalment of the loan payable between November 3, 2014 and November 1, 2019 was paid on December 3, 2014. A sum of NT$185 thousand will be repaid every month, and the remaining principal will be repaid in lump sum by the deadline.
〃	10,280	1.5700	Between April 24, 2012 and April 24, 2017, a sum of NT$120 thousand will be repaid over 28 monthly instalments, and the balance of the principal will be repaid in lump sum by the deadline.
Total	193,082		
Less: long-term loan due in one year	(37,105)		
Net	$155,977		

Creditor	12/31/2015	Interest rate (%)	Repayment period and method
Taiwan Cooperative Bank - Hsinchu Science Park Branch	$40,941	1.8500	The first instalment of the loan repayable between December 30, 2013 and December 30, 2018 was paid on December 30, 2014. A sum of NT$3,412 thousand of principal on average will be amortized over 17 quarters.
〃	58,514	1.7850	The first instalment of the loan repayable between September 18, 2013 and October 31, 2031 was paid on September 18, 2014. A sum of NT$914 thousand of the principal on average will be amortized over 70 quarters.

Creditor	12/31/2015	Interest rate (%)	Repayment period and method
〃	27,989	1.8500	The first instalment of the repayable between January 29, 2014 and January 29, 2019 was paid on January 29, 2015. A sum of NT$2,153 thousand of the principal will be amortized on average over 17quarters.
CTBC Bank	19,495	1.7500	The first instalment of the loan repayable between November 3, 2014 and November 1, 2019 was paid on December 3, 2014. A sum of NT$185 thousands will be repaid in monthly installments, and the balance of the principal will be repaid in lump sum by the deadline.
〃	11,720	1.7500	A sum of NT$120 thousand will be repaid in monthly instalments over 28 terms between April 24, 2012 and April 24, 2017, and the balance of the principal amount will be repaid in lump sum by the deadline.
Taiwan Business Bank	1,675	2.1750	The first instalment of the loan repayable between March 2, 2011 and March 2, 2016 was paid on June 2, 2015. A sum of NT$1,675 thousand of the principal amount will be amortized on average over 20quarters.
〃	1,687	2.1750	The first instalment of a loan repayable between March 18, 2011 and March 18, 2016 was paid on April 18, 2012. On average, a sum of NT$1,688 thousands of the principal will be amortized over 16 quarters
〃	583	2.1750	The first instalment of a loan repayable between March 16, 2012 and March 18, 2016 amounting to NT$595 thousand was paid on April 15, 2012. On average, a sum of NT$583 thousands of the principal will be amortized over the remaining 15quarters.
〃	23,000	2.1750	The first instalment of a loan repayable

Creditor	12/31/2015	Interest rate (%)	Repayment period and method
			between August 15, 2011 and August 15, 2021 was paid on November 15, 2014. On average, a sum of NT$1,000 thousands of the principal will be amortized over 28 quarters.
Total	185,604		
Less: Long-term loan due in one year	(37,521)		
Net	$148,083		

Three banks, the Taiwan Business Bank, Taiwan Cooperative Bank and CTBC Bank, extended their pledged loans against partial lands, buildings and machine equipment, etc. to register their entitlement as first priority mortgage. For more details on pledge conditions, please see Note 8.

15. Post-employment benefits

Defined contribution plan

The company has formulated post-employment regulations in accordance with "Labor Pension Act" for defined contribution plan according to which the company's monthly contribution rate towards pension shall not be lower than 6% of the employees' monthly salary. The amount will be deposited in the individual pension accounts under the supervision of the Bureau of Labor Insurance on a monthly basis.

Expenses under the defined contribution plan for the years ended December 31, 2016 and 2015 were NT$14,071 thousands and NT$12,063 thousands, respectively.

Defined benefits plan

The company's post-employment regulations formulated in accordance with the "Labor Standards Act" deals with the defined benefits plan, and the employees' pension is based on the service rendered and the approved monthly average wage until retirement. Employees whose service is 15 years or less get two cardinal numbers for each year of service, and one cardinal number for each year of service for those with over 15 years of service. The maximum base numbers are 45. In accordance with the "Labor Standards Act", the Company contributes 2% of the total salary towards the pension fund on monthly basis, which is deposited in the special account of Bank of Taiwan, in the name of the Supervisory Committee of Labor Pension Reserve. The company would also assess the balance in the labor pension reserve account on December 31 every year. If the account balance is inadequate to pay the pension calculated by the above method to the employees retiring the next year, the company will cover the deficit by next March.

The assets are allocated by the Ministry of Labor as per the regulations of labor pension collection, management and use. The funds are invested in the following way to realize the investment; by self-operation and commissioned operation, as well as by following mid- and long-term investment strategy under active and passive management models. In consideration of risks such as market, credit and liquidity, the Ministry of Labor defines the cap for fund risks and control plans to ensure sufficient flexibility without taking too much risk to achieve the targeted benefit. The terms of the fund says that the minimum return by annual settlement and distribution shall not be less than that of income from a two-year fixed deposit. If there is shortfall, the authority can authorize to supplement by the national treasury. Since the company is not entitled to participate in the operation and manage the fund, it is unable to disclose the classification of planned asset fair value as per Paragraph 142, IAS 19. By December 31, 2016, the Company's defined benefits plan is estimated to contribute NT$6,460 thousand for the following year.

For the years ended December 31, 2016 and December 31, 2015, the Company's defined benefits plans will become overdue on 2031, and 2030.

The table below summarizes the defined benefits plan as shown in costs of profit or loss:

	2016	2015
Current service cost	$361	$313
Net interest of net defined benefit liability	411	516
Total	$772	$829

The present value of defined benefit obligations and the fair value adjustments of the plan assets are as follows:

	12/31/2016	12/31/2015	1/1/2015
Present value of defined benefit obligations	$53,371	$54,699	$46,928
Fair value of plan assets	(30,888)	(27,294)	(23,997)
Booked value of net defined benefit liability	$22,483	$27,405	$22,931

Adjustment of net defined benefit liability:

	Defined benefit Present value of	Plan assets Fair value	Net defined benefit Total

	obligations		
1/1/2015	$46,928	$(23,997)	$22,931
Current service cost	313	-	313
Interest expense (income)	1,056	(540)	516
Previous service cost and settlement gains or losses	-	-	-
Subtotal	48,297	(24,537)	23,760
Reassessment of defined benefit liability/asset:			
Actuarial gains or losses from demographic assumptions	(78)	-	(78)
Actuarial gains or losses from financial assumptions	5,690	-	5,690
Experiential adjustment	1,270	-	1,270
Reassessment of defined benefit asset	-	(107)	(107)
Subtotal	6,882	(107)	6,775
Benefit payments	(480)	480	-
Employer contributions	-	(3,130)	(3,130)
12/31/2015	54,699	(27,294)	27,405
Current service cost	361	-	361
Interest expense (income)	820	(409)	411
Previous service cost and settlement gains or losses	-	-	-
Subtotal	55,880	(27,703)	28,177
Reassessment of defined benefit liability/asset:			
Actuarial gains or losses from demographic assumptions	337	-	337
Actuarial gains or losses from financial assumptions	-	-	-
Experiential adjustment	265	-	265
Reassessment of defined benefit asset	-	165	165
Subtotal	602	165	767
Benefit payments	(3,111)	3,111	-
Employer contributions	-	(6,461)	(6,461)
12/31/2016	$53,371	$(30,888)	$22,483

Following assumptions are made to determine the defined benefit plan of the Corporation:

	105.12.31	104.12.31
Discount rate	1.50%	1.50%
Expected salary increase rate	3.00%	3.00%

Sensitivity analysis of each significant actuarial assumption:

	2016		2015	
	Defined benefit obligation increases	Defined benefit obligation decreases	Defined benefit obligation increases	Defined benefit obligation decreases
Discount rate increases by 0.5%	$-	$3,725	$-	$3,869
Discount rate decreases by 0.5%	4,056	-	4,233	-
Expected salary increases by 0.5%	3,974	-	4,147	-
Expected salary decreases by 0.5%	-	3,690	-	3,833

The sensitivity analysis mentioned earlier is conducted when there no changes in the other assumptions. When a single actuarial assumption (e.g., discount rate or expected salary) results in reasonable changes, the analysis is conducted to assess the impact on the defined benefit obligations. Since partial actuarial assumptions are inter-related, practically speaking, it is rare to see only a single actuarial assumption change. Hence, this analysis has its own limitation.

The method and assumption of the sensitivity analysis of the current period are not different from the previous period.

16. Equities

(1) Common stock

The Company’s authorized and issued capital were NT$600,000 thousand and NT$780,650 thousand, respectively; at a par value of NT$10, 55,976 thousand shares were issued on January 1, 2015.

The convertible bonds issued by the company were converted to the extent of NT$94,800 thousand and a total of 2,407 thousand shares of ordinary shares were converted in 2015. As per the resolution of the Board of Directors, July 27, 2015 and November 8, 2015, were declared as the capital increase base date for 1,865 thousand shares. The change of registration was approved by the Hsinchu Science Park Bureau, Ministry of Science and Technology.

As per the shareholder's meeting resolution of June 23, 2015, the company will issue restricted shares to the employees; an estimated 600 thousand shares will be issued, and the face value per share is NT$10; issue price: 0. The application is effective as per the approval of the Financial Supervisory Commission as of July 6, 2016. According to the Board of Directors resolution as of June 23, 2016, the company shall issue 572 thousand shares with the issue price: 0; capital increase: NT$5,720 thousand. Capital increase base date: July 27, 2015.

Since the company failed to meet the vesting conditions of acquisition of employee restricted shares, on December 23, 2015, the Board of Directors resolved to cancel 8 thousand shares, determined the capital decrease base date as of December 28, 2015, and completed the change of registration on January 8, 2016. By December 31, 2015, the actual issuance of employee restricted shares is 564 thousand shares.

According to the Board of Directors resolution of October 2, 2015, the company determined to issue common stock for cash: NT$128,000 thousand, split into 12,800 thousand shares; face value per share: NT$10; issue price: NT$46 per share. This capital increase case sets November 8, 2015 as the capital increase base date. The change of registration was approved by the Hsinchu Science Park Bureau, Ministry of Science and Technology.

By the end of December 31, 2015, the company's rated and issued equities are NT$1,000,000 thousand and NT$712,049 thousand of face value of NT$10 per share; 71,205 thousand shares were issued.

The convertible bonds issued by the company came for conversion of NT$94,800 thousand in 2015; a total of 2,407 thousand shares of common shares were converted. As per the resolution of the Board of Directors, February 15, 2016 was declared the capital increase base date for 542 thousand shares. The change of registration was approved by the Hsinchu Science Park Bureau, Ministry of Science and Technology.

By the end of December 31, 2015, the company's rated and issued equities are NT$1,000,000 thousand and NT$717,469 thousand with face value of NT$10 per share; 71,747 thousand shares were issued.

(2) Capital surplus

	12/31/2016	12/31/2015
Issue premium	$889,582	$877,259
Assessed value of changes in equity of ownership of subsidiaries	2,418	-
Share-based payment remuneration cost	-	12,323
Issuance of employee restricted stock	23,406	23,406
Total	$915,406	$912,988

According to the laws, the capital reserve shall not be used except to offset the deficit of the company. When a company incurs no loss, it may distribute the capital surplus generated from the excess of the issuance price over the pay value of capital and donations. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(3) Retained earnings and dividend policies

According to the Company's Articles of Incorporation, the current year's earnings, if any, shall be distributed in the following order:

A. Payment of all taxes and dues
B. Offset operation losses
C. Set aside10% towards statutory surplus reserve
D. Other special surplus reserve approved or reversed in accordance with laws and regulations or supervisory authorities.
E. Appropriate 12% and 2% from the remaining balance after the deductions for points A-D towards employees' bonus and directors' compensation. Employees' bonus shall be distributed in cash or new shares. The recipients shall be the employees of the company, who are qualified by specific conditions, which are formulated by the Board of Directors.
F. The remaining earnings shall be distributed by the Board of Directors according to the dividend policy, and reported at the shareholders' meeting.

However, according to Article 235.1 of the Company Act amendment as of May 20, 2015, the company shall distribute employees' compensation according to the profit status of the current year. According to the Company's Articles of Incorporation amended at the shareholders' meeting on June 22, 2016, the current year's earnings, if any, shall be distributed in the following order:

A. Payment of all taxes and dues
B. Offset operation losses
C. Set aside 10% towards statutory surplus reserve
D. Other special surplus reserve approved or reversed in accordance with laws and regulations or supervisory authorities.
E. The remaining earnings shall be distributed by the Board of Directors according to the dividend policy, and reported to the shareholders' meeting.

The company's dividend policy shall consider the company's current and future investment environment, need for capital, domestic and foreign competition and capital budgets, to safeguard the shareholders' interests, balance dividend and cater to the long-term financial plan. The Board of Directors will formulate a distribution plan on annual basis, and report it to the shareholders' meeting. The shareholders' dividend shall be 50%~100% of the current year's distributable earnings, of which at least 50% shall be cash dividend.

According to the Company Act, the contribution of the statutory surplus reserve shall reach to the capitalization. The statutory surplus reserve is subject to offset operation losses. When the company has no operational losses, it shall issue new shares or distribute cash to the extent of 25% in excess of statutory surplus reserve against paid-in capital to the shareholders at the original on pro-rata basis.

After adopting IFRS, the company complies with FSC Explanation Order No. 1010012865 issued on April 6, 2012: On first-time adoption of IFRS, on the transition date, for the booked unrealized revaluation increase and aggregated adjustment interest, since the exemption of IFRS 1 "First-time Adoption of IFRS" is transferred into retained earnings, the special earnings reserve of the same amount shall be recognized. After adopting IFRS to produce the financial statements in the distribution of distributable earnings, the company has assessed the remaining balance of special earnings reserve and the difference of other equity deduction net amount to recognize the special earnings reserve. Afterward, if other shareholders' equity deduction has reversed, the reversal shall be applicable to earnings distribution.

However, for the first-time adoption of IFRS, the company's reserved earnings are less, so special earnings reserve is not needed. In addition, from January 1 to December 31, 2016 and 2015, the company did not use, dispose of or reclassify related assets, so there is no reversal of special earnings reserve shown in undistributed earnings.

The details of the 2016 and 2015 earnings distribution and dividends per share as approved by the Board of Directors and the shareholder’s meeting on March 7, 2017 and June 22, 2016, respectively, are as follows:

	Earnings appropriation proposal		Dividend per share (NT$)	
	2016	2015	2016	2015
Statutory surplus reserve	$14,660	$13,381		
Special surplus reserve	31,620	-		
Common stock-cash dividend	99,554	114,803	$1.388	$1.600
Total	$145,834	$128,184		

Please refer to Note 6 for further details on the estimation and recognition foundation of employees’ compensation and remuneration to directors and supervisors. 20.

17. Share-based payment plans

Employees of the company are entitled to share-based payment as part of their remuneration; services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

(1) New restricted employee shares plan of the company

According to the shareholders' meeting resolution of June 23, 2015, the company issued new restricted employee shares up to 600 thousand shares of ordinary shares. The stock price at the given date was NT$51.5. The new restricted employee shares issued by the company shall be transferred within three years; however, the holders are still entitled to dividend distribution. Since the company failed to meet the vesting conditions of acquisition of new employee restricted shares, on December 23, 2015, the Board of Directors resolved to cancel the 8 thousand shares. As of December 31, 2015 and 2016, the actual issuance of employee restricted shares is 564 thousand shares.

After the issuance of the new employee restricted shares, they should be transferred to a trust, and prior to the fulfillment of the vesting conditions, the employee are not allowed to request the trustee to return the new employee restricted shares for any reason or in any manner. And during the trust period of the new employee restricted shares, the company is fully responsible for delegating the employees to deal with the stock trust agency in conducting negotiations, signing, amendment, extension, cancellation, termination of the trust contract (inclusive but not limited to), as well as transfer, use and disposal of the trust property.

When the employee fails to meet the vesting conditions, the company is entitled by law to retrieve the employee's ownership of the new employee restricted shares and cancel them.

(2) The capital increase of the company reserves the employee subscription plan in accordance with the Company Act.

Setting October 18, 2015 as the base date, the company issued common stocks for cash with 12,800 thousand shares; NT$10 per share; issued at a premium of NT$46 per share. According to Article 267 of the Company Act, the company has reserved 15% of the new shares, or 1920 thousand shares for employees' subscription. According to IFRS 2, "Share-based Payment", the compensation cost assessed at fair value of the given equity product by the given date is NT$12,323 thousand.

(3) The expense assessed by the company for employee share-based payment plans is as follows:

	2016	2015
Plan of new restricted employee shares	$9,682	$4,191
Subscription plan of common stock for cash for employees	-	12,323
Total	$9,682	$16,514

18. Operating revenue

	2016	2015
Sale of goods	$1,382,711	$1,173,120
Less: Sales returns, discounts and allowances	(30,566)	(43,684)
Total	$1,352,145	$1,129,436
	$1,352,145	$1,129,436

19. Operating leases

Operating leases Commitment - The Company is the lessee

The company has entered into commercial leases on plant, office and parking space. These leases have an average life of three to thirty years with no renewal option included in the contracts. These leases do not impose any restrictions on the company.

Future minimum rentals payable under non-cancellable operating leases as of December 31, 2016 and 2015 are as follows:

	105.12.31	104.12.31
Not later than one year	$8,655	$8,643
Later than one year but not later than five years	24,142	24,729
Later than five years	69,010	75,729
Total	$101,807	$109,101

20. Summary statement of employee benefits, depreciation and amortization expense by function:

Function / Type	2016			2015		
	Fees that belongs to operational costs	Fees that belongs to operational expenses	Total	Fees that belongs to operational costs	Fees that belongs to operational expenses	Total
Employee benefits expense						
Salary costs	$158,450	$170,838	$329,288	$146,299	$163,326	$309,625
Labor and health insurance premiums	15,127	12,060	27,187	12,605	10,795	23,400
Pension expense	7,853	6,990	14,843	6,656	6,236	12,892
Other employee benefits expenses	6,608	3,922	10,530	5,442	3,490	8,932
Depreciation expense	42,461	33,665	76,126	35,363	29,550	64,913
Amortization expense	-	5,837	5,837	-	6,672	6,672

Note: The number of employees serving the company as of December 31, 2016 and 2015 are 507 and 443 people, respectively.

According to the Company’s Articles of Incorporation amended at the shareholders' meeting as of June 22, 2016, the current year’s earnings, if any, shall be distributed at the rate of 12% towards employees' compensation, and less than 3% as directors' compensation. However, the company's accumulated losses shall first be offset. The employees' compensation shall be distributed in cash and undertaken by a resolution adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors and reported to the shareholders' meeting. Information relating to employees' and directors' compensation approved by the Board of Directors can be inquired at the Market Observation Post System, TWSE.

Based on the earnings of 2016, the company has set aside 12% and 2.9% towards compensation to employees and directors, respectively, and the amount of compensation to employees and directors is NT$23,061 thousand and NT$5,695 thousand, respectively, under the salary expense. The company, as per resolution of the Board of Directors on March 7, 2017, disbursed NT$23,061 thousand and NT$5,765 thousand, respectively, as compensation to employees and directors. There is a difference of NT$70 thousand between the estimated amount and the actual distribution amount, which is shown in the profit and loss for the next year.

The company, as per the resolution of the Board of Directors on March 22, 2016, disbursed NT$23,155 thousand and NT$4,824 thousand respectively as compensation to employees and directors in 2015. The actual remuneration to employees and directors is NT$23,947 thousand and NT$3,991 thousand, respectively, as of 2015. The difference between the estimated amount and the actually disbursed amount as approved by the Board of Directors is NT$41 thousand, which is shown in profit or loss account for the following year.

21. Non-operating income and expenses

(1) Other income

	2016	2015
Interest Income	$3,863	$1,620
Other income -- others	26,547	2,418
Total	$30,410	$4,038

(2) Other gains and losses

	2016	2015
Gains and losses on disposal of property, plant and equipment	$(301)	$367
Foreign exchange (losses) gains, net	(16,989)	5,712
Financial liability gains and losses assessed at fair value through profit and loss	-	1,371
Other expenses	(163)	(1,234)
Total	$(17,453)	$6,216

(3) Financial costs

	2016	2015
Interest on bank loan	$(4,568)	$(5,653)
Interest of bond payable	-	(1,471)
Total financial costs	$(4,568)	$(7,124)

22. Components of other comprehensive income

Components of other comprehensive income for the year ended December 31, 2016

	Arising during the period	Current Reclassification Adjustment	Others Comprehensive Income	Income Tax Gains (expenses)	After-tax amount
Items not reclassified to profit or loss:					
The amount to be measured again when the welfare plan is determined	$(767)	$-	$(767)	$-	$(767)
Items that might be reclassified to profit or loss:					
Conversion difference of financial statements of foreign operations	(47,338)	4,616	(42,722)	3,535	(39,187)
Equity directly relating to non-current assets held for sale	-	(4,616)	(4,616)	785	(3,831)
Total	$(48,105)	$-	$(48,105)	$4,320	$(43,785)

Components of other comprehensive income for the year ended December 31, 2015

	Arising during the period	Current Reclassification Adjustment	Others Comprehensive Income	Income Tax Gains (expenses)	After-tax amount
Items not reclassified to profit or loss:					
The amount to be measured again when the welfare plan is determined	$(6,775)	$-	$(6,775)	$1,152	$(5,623)
Items that might be reclassified to profit or loss:					
Conversion difference of financial statements of foreign operations	2,981	(4,616)	(1,635)	278	(1,357)
Equity directly relating to non-current assets held for sale	-	4,616	4,616	(785)	3,831
Total	$(3,794)	$-	$(3,794)	$645	$(3,149)

23. Income tax

The major components of income tax expense (income) for the year ended December 31, 2016 and 2015 are as follows:

Income tax expense shown in profit or loss account

	2016	2015
Current income tax expense (income):		
Current income tax charge	$49,761	$29,204
Adjustments in respect of current income tax of prior periods	(15,478)	8,342
Deferred tax income:		
Deferred tax income relating to origination and reversal of temporary differences	(17,466)	(6,332)
Income tax expenses	$16,817	$31,214

Income tax recognized in other comprehensive income

	2016	2015
Deferred tax expenses (income):		
Conversion difference of financial statements of foreign operations	$3,535	$278
Equity directly relating to non-current assets held for sale	785	(785)
The amount to be measured again when the welfare plan is determined	-	1,152
Income tax relating to the components of other comprehensive income	$4,320	$645

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	2016	2015
Accounting profit before tax from continuing operations	$163,418	$165,021
Tax at the domestic rates applicable to profits in the country of main operation entity concerned	$27,781	$28,054
Tax effect of revenues exempt from taxation	(17,850)	(10,710)
Tax effect of expenses not deductible for tax purposes	12,135	8,743
Tax effect of differed tax assets tabulated	10,229	(3,215)
Adjustments in respect of current income tax of prior periods	(15,478)	8,342
Total income tax expense shown in profit and loss account	$16,817	$31,214

Deferred tax assets (liabilities) relate to the following:

2016

	Opening balance	As shown in profit and loss account	As shown in other Comprehensive Income	Balance at the end of the current period
Temporary differences				

Unrealized deals within Group entities	$34,411	$(5,996)	$-	$28,415
Unrealized exchange profit and loss	(394)	1,236	-	842
Conversion difference of financial statements of foreign operations	(3,535)	-	3,535	-
Equity directly relating to non-current assets held for sale	(785)	-	785	-
Long-term deferred income	-	22,226	-	22,226
Deferred income tax (expense)/benefit		$17,466	$4,320	
Deferred income tax assets/(liabilities) net	$29,697			$51,483
The information in the balance sheet shown is as follows:				
Deferred income tax assets	$34,411			$51,483
Deferred income tax liabilities	$(4,714)			$-

2015

	Opening balance	As shown in profit and loss	As shown in other Comprehensive Income	Balance at the end of current period
Temporary differences				
Unrealized deals within Group entities	$(1)	$1	$-	$-
Unrealized exchange profit and loss	29,071	5,340	-	34,411
Conversion difference of financial statements of foreign operations	(2,537)	2,143	-	(394)
Equity directly relating to non-current assets held for sale	(3,813)	-	278	(3,535)
Long-term deferred income	-	-	(785)	(785)
Deferred income tax (expense)/benefit		$6,332	$645	
Deferred income tax assets/(liabilities) net	$22,720			$29,697
The information in the balance sheet shown is as follows:				
Deferred income tax assets	$29,071			$34,411
Deferred income tax liabilities	$(6,351)			$(4,714)

Unassessed deferred income tax assets

The company's unrecognized deferred income tax assets account for 54,429 thousand and 48,877 thousand for the year ended December 31, 2016 and 2015, respectively.

According to the "Statute for Upgrading Industry", the company is entitled to the benefit of business income tax exemption for joint replacements from January 1, 2012 and the following five years.

Information of Integrated Income Tax System

	12/31/2016	12/31/2015
Shareholders' tax account deductible against balance	$43,270	$37,612

The company's tax-deductible ratio of estimated earnings distribution in 2016 and the actual earnings distribution in 2015 are both 20.48%.

The company does no longer have any undistributed earnings from the prior period and in 1997.

Income tax declaration approval

By the end of December 31, 2016, the company's business income tax settlement and declaration were approved by the tax authority as of 2014 data.

The 2012 business income tax settlement and declaration case approved by the tax authority was subject to NT$11,500 thousand supplementary payment. However, the company, dissatisfied with the ruling filed for a review of its decision. According to the review by the Tax Office, the Ministry of Finance dated February 22, 2016, the company's business income tax for 2012 was changed to NT$1,888 thousand, so the company reversed the overestimated income tax of NT$9,612 thousand in 2016.

24. Earnings per share

The Basic earnings per share is calculated by dividing the net profit of the parent company’s ordinary shares holders by weighted average number of ordinary shares outstanding during the period.

The Diluted earnings per share is calculated by dividing the net profit of the parent company’s ordinary shares (adjusted interest of convertible bond) by weighted average number of ordinary shares outstanding during the period, adding weighted average number of ordinary shares converted from dilutive potential ordinary shares into ordinary shares to be issued.

	2016	2015
(1) Basic earnings per share		
Net profit during this period (thousand dollar)	$146,601	$133,807
Weighted average number of common stock shares assessed for basic earnings per share	71,116	58,210
Basic earnings per share (NT$)	$2.06	$2.30

	2016	2015
(2) Diluted earnings per share		
Net profit in this period (thousand dollar)	$146,601	$133,807
Interest of convertible bond (NT$thousand)	-	1,220
The net profit of current period after adjustment for dilution effect (thousand dollar)	$146,601	$135,027
Weighted average number of common stock shares of basic earnings per share		
Dilution effect:		
Employee dividend - stock (thousand shares)	-	351
Convertible bond (thousand shares)	-	2,015
Restricted employees’ new shares (thousand shares)	354	96
Weighted average number of common stock shares after adjustment for dilution effect	71,470	60,672
Diluted earnings per share (NT$)	$2.05	$2.23

After the reporting period and before the publication of the financial statements, there are no other transactions relating to significant changes in ordinary shares outstanding or potential ordinary shares.

7. Related-party transactions

1. Sales

	2016	2015
Subsidiary	$286,100	$490,314
Affiliate companies of the Company	305,541	-
Total	$591,641	$490,314

The sales price offered by the company to the related parties is added to cost, and the payment term in principle is not significantly different from normal exporting customers, except for a longer credit period in consideration for the related parties' funding constraints.

2. Purchase

	2016	2015
Subsidiary	$-	$89,547
Affiliated companies of the company	59,743	-
Total	$59,743	$89,547

The purchase price offered by the company to the related parties is added to cost, and the payment term is on monthly basis.

3. Accounts receivable -- stakeholders

	12/31/2016	12/31/2015
Subsidiary	$175,195	$263,045
Affiliated companies of the company	68,640	-
Subtotal	243,835	$263,045
Less: Allowance for bad debts	-	-
Net	$243,835	$263,045

4. Accounts payable -- stakeholders

	12/31/2016	12/31/2015
Subsidiary	$-	$48,744
Affiliated companies of the company	13,568	-
Total	$13,568	$48,744

5. Other receivables -- stakeholders

	12/31/2016	12/31/2015
Subsidiary	$24,210	$5
Affiliated companies of the company	3	-
Total	24,213	$5

6. Property transactions

The company has sold assets to the following stakeholders during the year 2015:

	Property name	Disposal price	Loss disposal
Primary management	Transportation equipment	$532	$(9)

At the end of December 31, 2015, the company has collected NT$532 thousand.

7. Remuneration for the primary management of the company

	2016	2015
Short-term employee benefits	$25,096	$20,468
Share-related payments	1,803	1,040
Total	$26,899	$21,508

8. Pledged assets

The company records the following assets as collateral:

	Carrying amount		
Item	12/31/2016	12/31/2015	Secured liabilities
Bond investments that do not have active market -- non-current	$6,320	$6,085	Performance bond, comprehensive credit loan, import duty security
Other non-current assets	-	336	〃
Property, plant and equipment -- land and building	189,328	193,462	〃
Property, plant and equipment - machine equipment	185,596	173,602	〃
Total	$381,244	$373,485	

9. Commitments and contingencies

1. On November 6, 2015, the company has signed the "initiator cooperation agreement of establishing a joint corporation" with Shinva Medical Instrument Co., Ltd. and Shinva Healthcare Co., Ltd. The three parties will establish a joint venture company in China (company name: Shinva United Orthopedic Corporation). Its estimated registered capital was CNY 300,000,000, and the registered capital for the beginning period was CNY 200,000,000. The capital will be progressively increased in phases as per the actual operating needs. The company's investments accounted for 49%; the investment for the beginning period included 15% of technology price, a total of CNY 98,000 thousand. Shinva United Orthopedic Corporation was established on January 13, 2016. The company has invested CNY 24,500 thousand, CNY 49,000 thousand (including technology price CNY 30,000 thousand) and CNY 24,500 thousand on January 28, 2016, March 10, 2016 and October 12, 2016, respectively.
   According to the cooperation agreement, the company's indirect ownership of its associate companies, United Medical Instrument Co., Ltd., United Medical Co., Ltd. and United Medical Technology (ShangHai) Co., Ltd. was sold to Shinva United Orthopedic Corporation at the transfer price CNY 26,903 thousand, which is the net worth according to audit by a local accounting firm. As of now, CNY 3,542 thousand was collected, and the balance of CNY 23,361 thousand was

deposited in a monitored bank account agreed to bilaterally. After regulatory procedures are approval by the government, the bank will transfer the balance.

The company's significant contracts for purchase of fixed assets are as follows:

December 31, 2016

Item	Contract total value	Paid amount	Unpaid amount
Plants and auxiliary equipment (phase-3 plant)	$227,600	$122,281	$105,319

Dec. 31, 2015

None.

10. Loss due to major disasters

1. None.

11. Significant subsequent events

2. None.

12. Others

1. Categories of financial instruments

Financial assets

	12/31/2016	12/31/2015
Financial assets available for sale		
(including financial assets assessed at cost)	$2,850	$2,850
Loans and receivables:		
Cash and cash equivalents (excluding cash on hand)	334,847	662,363
Investments in debt instruments with no active markets	6,320	6,085
Notes receivable	3,252	658
Accounts receivables (including related parties)	409,628	397,730
Other receivables (including related parties)	32,482	3,816
Subtotal	786,529	1,070,652
Total	$789,379	$1,073,502

Financial liabilities

	105.12.31	104.12.31
Financial liabilities at amortized cost:		
Short-term loan	$315,000	$23,602
Short-term notes and bills payable	50,000	-
Receivables (including related parties)	277,645	302,462
Long-term loan (including 1-year due)	193,082	185,604
Total	$835,727	$511,668

2. Objectives and policies of financial risk management

The Company's principal financial risk management objective is to manage market risk, credit risk, and liquidity risk related to its operating activities. The company identifies, assesses and manages these risks based on its policies and risk appetite.

The Company has put in place appropriate policies, procedures and internal controls for financial risk management in accordance with relevant regulations. Significant financial activities must be approved by the Board of Directors based on protocols and internal control procedures. The company shall comply with its financial risk management policies during its execution of financial management activities.

3. Market risk

Market risk for the company is the risk of fluctuation in fair value of future cash flows of a financial instrument because of the changes in market conditions. Market prices comprise currency risk, interest rate risk, and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independent of other risk variables; there is usually interdependence among risk variables. However, the sensitivity analysis shown below does not consider interdependence among risk variables.

<u>Foreign currency risk</u>

The company's exposure to the foreign exchange risk is primarily related to its operating activities (when revenue or expense are denominated in a different currency than the Company's functional currency) and its net investments in foreign subsidiaries.

The foreign currency receivables and payables of the company are denominated in the same foreign currency with certain foreign currency payables, therefore, natural hedge is available. The company also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not meet the hedge accounting criteria. Additionally, the company's net investments in foreign subsidiaries are strategic investments; hence, no hedging was applied in this regard.

The main focus of the sensitivity analysis of foreign exchange risks of the company is on significant foreign exchange items at the end of the reporting period, and the impact of the appreciation/ depreciation of the foreign exchange on its profits and losses, and of equities. The company's foreign currency risk is mainly related to the volatility in the exchange rates for USD. The information of the sensitivity analyses is as follows:

When NTD appreciates/depreciates against USD by 1%, the profits or losses of the Company for the years ended December 31, 2016 and 2015 are decreased/increased by NT $3,753 thousand and NT $2,608 thousand, respectively.

When NTD appreciates/depreciates against RMB by 1%, the profits or losses of the company for the years ended December 31, 2016 and 2015 decrease/increase by NT$1,026 thousand and NT$3,256 thousand, respectively.

Interest rate risks

Interest rate risk is the risk resulting from the fluctuations in the fair value or future cash flows of the financial instrument due to changes in market interest rates. The company's interest rate risks are mainly sourced from floating interest investments, fixed interest loans, and floating interest loans classified as loans and receivables.

The company manages its interest rate risk by applying a balanced portfolio of fixed and floating interest and entering into interest rate swaps. Hedge accounting does not apply to these swaps as they do not qualify for criteria.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk at the end of the reporting period, including investments and borrowings with variable interest rates and interest rate swaps. At the reporting date, a change of 1% of interest rate in a reporting period could cause the profit for the years ended December 31, 2016 and 2015 to decrease by NT$169 thousand and NT $367 thousand, respectively.

4. Credit risk management

Credit risk is the risk of a counterparty not meeting its obligations under a contract, leading to financial loss. The company is exposed to credit risk from operating activities (primarily for accounts receivables and notes) and from its financing activities (primarily bank deposits and other financial instruments).

Customer credit risk is managed by each business unit subject to the company’s established policy, procedures and control relating to customer credit risk management. All customers’ credit risks are comprehensively evaluated based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the company’s internal rating criteria, etc. The credit risk of certain customer will also be reduced by utilizing certain credit enhancing instruments (such as requesting for prepayment or insurance) at appropriate times.

As of December 31, 2016, and December 31, 2015, accounts receivables from the top ten customers represent, respectively, 77% and 83% of the total accounts receivables by the company the credit concentration risk of other accounts receivables is insignificant.

The treasury of the company manages the credit risks of bank deposits, fixed income securities, and other financial instruments in accordance with the company's policy. Its trading counterparties are decided by the internal control procedures, which involve banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk from these counterparties.

5. Liquidity risk management

The company maintains its financial flexibility through the use of cash and cash equivalents, bank loans and convertible bonds. The table below summarizes the maturity profile of the company's financial liabilities based on its contractual undiscounted payments and contractual maturity. The payment amount includes contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	< 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
12/31/2016					
Loan	$352,105	$69,163	$40,987	$45,827	$508,082
Short-term notes and bills payable	50,000	-	-	-	50,000
Accounts Payable	277,645	-	-	-	277,645
12/31/2015					
Loan	$61,123	$72,332	$32,522	$43,229	$209,206
Accounts Payable	302,462	-	-	-	302,462

6. Fair values of financial instruments

(1) The methods and assumptions applied in determining the fair value

The fair value of the financial assets and liabilities is assessed at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used by the company to assess or disclose the fair value of financial assets and liabilities:

A. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturity periods.

B. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures, etc.) at the reporting date.

C. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) is estimated using market valuation techniques based on parameters, such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

D. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as the basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

E. The fair value of derivatives which are not options and without market quotations is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation methods (for example, Monte Carlo Simulation).

(2) Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, accounts receivables, accounts payable and other current liabilities whose carrying amount approximate their fair value, the fair value of the company’s financial assets and financial liabilities assessed at amortized cost are listed below:

	Carrying amount		Fair value	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Financial assets				
Bond investments with no active market	$6,320	$6,085	$6,320	$6,085
Financial liabilities				
Long-term loans	$193,082	$185,604	$193,082	$185,604

(3) Fair value assessment hierarchy for financial instruments

Please refer to Note 12.8 for the assessment of the fair value of the company’s hierarchy for financial instruments.

7. Derivatives

Relevant information in the company's possession of unqualified hedge accounting and premature derivatives (including forward exchange contract and embedded derivatives) as of December 31, 2016 and December 31, 2015 is as follows:

Embedded derivatives

The company has issued convertible corporate bonds and identified them with embedded derivatives, which were already separated from the main contract, and were assessed at fair value through profits or losses.

8. Fair value measurement hierarchy

(1) Fair value assessment hierarchy

All assets and liabilities for which fair value is assessed or disclosed in the financial statements are categorized in fair value hierarchy, based on the lowest level input, which is significant to the fair value assessment as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access on the assessment date

Level 2: Inputs other than quoted prices included in Level 1 are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

For assets and liabilities that are shown in the financial statements on a recurring basis, the Group determines the transfers between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(2) Fair value assessment hierarchy of the Group's assets and liabilities

The company does not have assets that are measured at fair value on a non-recurring basis. Fair value assessment hierarchy of the assets and liabilities assessed at fair value on a recurring basis is as follows:

As at December 31, 2016

None.

As at December 31, 2015

None.

Transfer between Level 1 and Level 2 during the periods

During the years from January 1 to December 30, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value assessments.

(3) Fair value assessment hierarchy of the Group's assets and liabilities not assessed at fair value but their fair value is shown here.

As of December 31, 2016

	Level 1	Level 2	Level 3	Total
Liabilities not assessed at fair value but a fair value is disclosed:				
Long-term loans	$-	$-	$193,082	$193,082
Short-term notes and bills payable	-	-	50,000	50,000

As at December 31, 2015

	Level 1	Level 2	Level 3	Total
Liabilities not measured at fair value but a fair value is disclosed:				
Long-term loans	$-	$-	$185,604	$185,604

9. Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies of the Company is shown below:

Unit: thousand

	12/31/2016		
	Foreign currency	Exchange rates	NT$
Financial assets			
Monetary items:			
USD	$11,916	32.2000	$383,688
EUR	3,380	33.7000	113,923
JPY	120	0.2736	33
CHF	947	31.3800	29,711
CNY	25,430	4.5920	116,774
GBP	83	39.4000	3,285
Financial liabilities			
Monetary items:			
USD	$260	32.3000	$8,396
EUR	364	34.1000	12,418
JPY	520	0.2776	144
CHF	19	31.6700	601
CNY	3,044	4.6420	14,129
GBP	1	39.8200	27

	12/31/2015		
	Foreign currency	Exchange rates	NT$
Financial assets			
Monetary items:			
USD	$8,383	32.7750	$274,744
EUR	1,451	35.6800	51,757
JPY	285	0.2707	77
CHF	35	33.0400	1,157
CNY	74,155	4.9700	368,548

GBP	97	48.4600	4,707
Financial liabilities			
Monetary items:			
USD	$424	32.8750	$13,914
EUR	905	36.0800	32,645
JPY	560	0.2747	154
CHF	1	33.3300	49
CNY	8565	5.0200	42,997
AUD	3	24.1000	77
GBP	-	48.8800	(3)

Due to the wide range of functional currencies that are adopted by the company, the disclosure of exchange profits or losses of functional financial assets and liabilities by respective significant currency is not applicable. For the years from January 1 to December 31, 2016 and 2015, foreign exchange gains/losses were at NT$(16,989) thousand and NT$5,712 thousand, respectively.

10. Capital management

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business operations and maximize shareholder value. The company manages its capital structure and makes adjustments in accordance with economic conditions. To maintain or adjust the capital structure, the company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

11. For the convenience of analysis, several accounting entries from previous financial statements have been reclassified appropriately.

13. Other disclosure items

1. Related information on significant transactions:

(1) Capital financing to others: see Table 1.

(2) Endorsement or guarantee for others: see Table 2.

(3) Marketable securities held at the end of the current period (excluding investments in subsidiaries, affiliate companies, and joint control entities): see Table 3.

(4) Accumulated acquisition or disposal of individual marketable securities at cost of at least NT$300 million or 20% of the paid-in capital: see Table 4.

(5) Acquisition of individual real estate at price of at least NT$300 million or 20% of the paid-in capital: None.

(6) Disposal of real estate at price of at least NT$300 million or 20% of the paid-in capital: None.

(7) Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital: see Table 5.

(8) Accounts receivable from related parties amounting to NT$100 million or 20 percent of paid-in capital or more: None.

(9) Engaged in trading derivative products: Please see financial note 6.13 and note 12.

2. Related information on re-investment businesses: see Table 6.

3. Related information on investments in China: see Table 7.

Notes on individual financial statements of United Orthopedic Corporation (continued)

(All Amounts Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Table 1. Capital financing to other parties as at December 31, 2016:

Unit: NT$1,000

No.	Lender	Borrower	Item	Whether related parties	Highest amount in the current period	Balance at the end of the current period (approved cap by the Board of Directors)	Actual expenditure	Interest range	Capital financing feature	Amount of transaction	Reason for short-term financing	Amount of Allowance for Doubtful Account	Collateral		Cap of capital financing by respective party	Capital financing Total Cap
													Name	Value		
0	United Orthopedic Corporation Co., Ltd.	United Medical (B.V.I.) Corporation	Accounts receivable - Related party	Yes	$10,000	$10,000	$-	0.99%~1.60%	Business features	$-	None	$-	None	$-	$-	$215,241
0	United Orthopedic Corporation Co., Ltd.	UOC America Holding Corporation	Accounts receivable - Related party	Yes	40,000	40,000	-	0.99%~1.60%	Business features	199,600	None	-	None	-	199,600	215,241
0	United Orthopedic Corporation Co., Ltd.	United Medical Instrument Co., Ltd. Corporation	Accounts receivable - Related party	Yes	30,000	30,000	-	0.99%~1.60%	Business features	276,446	None	-	None	-	215,241	215,241
0	United Orthopedic Corporation Co., Ltd.	United Orthopedic Corporation (Suisse) SA	Other accounts receivable - Related party	Yes	32,315	32,315	24,432	1.60%	Short term financing nature	86,500	Operating turnover	-	None	-	86,500	215,241
1	United Medical (B.V.I.) Corporation	United Medical Instrument Co., Ltd. Corporation	Accounts receivable - Related party	Yes	10,000	10,000	-	0.99%~1.60%	Business features	-	None	-	None	-	-	107,620
2	UOC America Holding Corporation	UOC USA ,Inc	Accounts receivable - Related party	Yes	40,000	40,000	-	0.99%~1.60%	Business features	207,769	None	-	None	-	107,620	107,620

Note 1: The company's cap of financing and borrowings shall not exceed 30% of the company's paid-in capital.

Note 2: Financing to an individual party shall be limited within the bilateral business transaction amount over the last year.

Note 3: The subsidiary's cap of financing and borrowings shall not exceed 15% of the company's paid-in capital.

Notes on individual financial statements of United Orthopedic Corporation (continued)

(All Amounts Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Table 2. Endorsement or guarantee for other parties as of December 31, 2016:

Unit:NT$1,000

	Endorsement Guarantor	Recipient of Endorsement or Guarantee		Cap of endorsement or guarantee for a single enterprise	Highest endorsement or guarantee amount for the current period	Endorsement or guarantee balance at the end of the current period	Actual expenditure	Property-guaranteed	Ratio of aggregated endorsement or guarantee amount to latest financial statement net worth	endorsement or guarantee	Attributable to parent to subsidiary	Attributable to subsidiary to parent	Attributable to China
No.	Company name	Company name	Relation	endorsement or guarantee limit	endorsement or guarantee amount	Balance ensured	Amount	endorsement or guarantee amount	Ratio to the net value of financial statement	cap	company endorsement or guarantee	company endorsement or guarantee	endorsement or guarantee
0	United Orthopedic Corporation (	UOC USA ,Inc.	100% Holding Sub-subsidiary	$215,241	$163,075	$163,075	$81,538	$-	9.21%	$358,734	Y	N	N
0	United Orthopedic Corporation	United Medical Instrument Co., Ltd. Sanghai Co., Ltd.	Affiliated Company	215,241	65,230	-	-	-	-%	358,734	N	N	Y
0	United Orthopedic Corporation (	United Medical Co., Ltd. Company	Affiliated Company	215,241	91,252	-	-	-	-%	358,734	N	N	Y

Note 1: The company's total sum of endorsement or guarantee shall not exceed 50% of its paid-in capital; to an individual enterprise, the endorsement or guarantee shall not exceed 30% of the company's paid-in capital.

(All Amounts Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Table 4: Amount of accumulated acquisition or disposal of the same securities amounting to NT$300 million or exceeding 20% of the paid-in capital:

Unit:NT$1,000/CNY thousand

	Marketable Security			Issuer of Marketable Security	Beginning of the Period		Buy		Sell				End of the Period		
Buy/Sell Company	Type and Name	Accounting item	Counterparty	Relation with the company	Number of shares (thousand shares)	Amount	Number of shares (thousand shares)	Amount	Number of shares (thousand shares)	Selling price	Cost of Book Value	Gain (Loss) on Disposal	Number of shares (thousand shares)	Amount	Shareholding ratio
United Orthopedic Corporation	Shinva United Orthopedic Corporation United Orthopedic Corporation	Investments accounted for using the equity method Investment adopt equity method	Shinva United Orthopedic Corporation United Orthopedic Corporation	Affiliated Company	-	$-	98,000 (Note 1)	$487,520 (CNY 98,000) (Note 2)		$-	$-	$-	98,000 (Note 1)	$487,520 (CNY 98,000) (Note 2)	49

Note 1: The face value per share is CNY1.

Note 2: Including technology price CNY 30,000 thousand, equivalent to NT$149,844 thousand.

Notes on individual financial statements of United Orthopedic Corporation (continued)
(All Amounts Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Table 5: The purchase and sale with related parties amounting to NT$100 million or more than 20% of the paid-up capital

Unit:NT$1,000

Purchase (sales) Company	Counterparty	Relation	Trade Details				Unusual trade conditions and its reasons		Bills and accounts receivable (payable)		Remark
			Purchase (sales)	Amount	Total purchase (sale) to individual statement ratio	Credit period	Price per Unit	Credit period	Balance	Total account receivable (payable) individual statement ratio	
United Orthopedic Corporation	UOC America Holding Corporation	Parent/Subsidiary Company	Sales	$201,927	14.60%	90 days	Notes	Notes	$91,290	22.11%	
United Orthopedic Corporation	United Medical Instrument Co., Ltd. Shanghai Co., Ltd.	Affiliated Company	Sales	276,446	19.99%	90 days	Notes	Notes	63,920	15.48%	
UOC America Holding Corporation	UOC USA, Inc.	Subsidiary/Sub-subsidiary Company	Sales	209,242	99.56%	90 days	Notes	Notes	94,092	100%	

Note: There is no significant difference from the normal trade.

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

Table 6: Related information on re-investment businesses:

Unit: NT$1,000/USD 1,000/CHF 1,000/EUR 1,000/JPY 1,000

Investor	Investee Company	Located	Primary	Initial investment		Holding at the End of the Period			Investee Company	Investment Gains and Losses	Note
Company Name	Name	Region	Business	End of the current period	End of the previous year	Number of Shares	Ratio	Carrying amount	Gains and Losses in the Current Period	Assessed in the Current Period	
United Orthopedic Corporation	United Medical (B.V.I.) Corporation	British Virgin Islands	Holding Company, Trading	$360,194 (USD 11,400)	$360,194 (USD 11,400)	11,400 (Note 1)	100%	$128,694	$6,380	$6,380	Subsidiary
United Orthopedic Corporation	UOC America Holding Corporation	British Virgin Islands	Holding Company, Trading	139,768 (USD 4,500)	139,768 (USD 4,500)	4,500 (Note 1)	100%	53,543	2,073	2,073	Subsidiary
United Orthopedic Corporation	UOC Europe Holding SA	Switzerland	Holding Company	50,420 (CHF1,500)	- -	1,500 (Note 3)	75%	(456)	(12,965)	(11,949)	Subsidiary
United Orthopedic Corporation	United Biomech Japan	Japan	Trading, Wholesale	23,983 (JPY 76,500)	- -	765 (Note 6)	51%	16,451	(9,665)	(4,929)	Subsidiary
United Medical (B.V.I.) Corporation	Lemax Co.,Ltd	British Virgin Islands	Holding Company	360,194 (USD 11,400)	360,194 (USD 11,400)	11,400 (Note 1)	100%	123,547	6,483	6,483	Sub-subsidiary
UOC America Holding Corporation	UOC USA, Inc.	USA	Trading, Wholesale	139,768 (USD 4,500)	139,768 (USD 4,500)	900 (Note 2)	100%	134,016	(4,388)	(4,388)	Sub-subsidiary
UOC Europe Holding SA	United Orthopedic Corporation (Suisse) SA	Switzerland	Trading, Wholesale	6,865 (CHF 200)	- -	200 (Note 4)	100%	8,026	1,760	1,760	Sub-subsidiary
UOC Europe Holding SA	United Orthopedic Corporation (France)	France	Trading, Wholesale	7,442 (EUR 200)	- -	200 (Note 5)	100%	(6,718)	(13,797)	(13,797)	Sub-subsidiary

Note 1: The face value per share is USD 1,000.
Note 2: The face value per share is USD 5,000.
Note 3: The face value per share is CHF 1,000.
Note 4: The face value per share is CHF 1,000.
Note 5: The face value per share is EUR 1,000.
Note 6: The face value per share is JPY 50,000.

Notes on individual financial statements of United Orthopedic Corporation (continued)

(All Amounts Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Table 7. Related information on investments in China

Unit:NT$1,000/USD thousand

Investee company in China	Primary business	Paid-in capital		Aggregated investment amount remitted from Taiwan at the beginning of the current period	Amount remitted from Taiwan or recalled as of the current period		Aggregated investment amount remitted from Taiwan at the end of the current period	invested Profits and losses of the Company for the current period	Shareholding ratio of the company's direct or indirect investments or indirectly invested	Profit or loss for the current period	Carrying amount of investment for current period	Investment profits recollected as of current period remitted back
Company name	Items	Capital	Investment method	investment amount	Remit	Recollect	investment amount		Shareholding ratio		Carrying amount	Investment profits
Shinva United Orthopedic Corporation	Production and sales of orthopedic implants & joint replacements Production and sales	Registered capital amount: CNY 200,000,000	(Note 1)	$-	$487,520	$-	$487,520 (CNY 98,000 thousand) (Note 3)	$(26,953)	49%	$ (13,207)	$414,657	$-
United Medical Co., Ltd. Company	Artificial implants, medical instruments & manufacturing equipment, joint replacements Equipment and manufacturing equipment, Artificial joints	Registered capital amount: USD 5,200,000	(Note 1)	$159,690 (USD 5,000 thousand)	-	-	$159,690 (USD 5,000 千元)	-	-	$(3,338)	$101,276	-
United Medical Instrument Co., Ltd. Medical Instrument	International trade, medical precision instruments wholesale & retail, product after sales service Precision	Registered capital amount: USD 6,000,000	(Note 1)	188,378 (USD 6,000	-	188,378	188,378 (USD 6,000	-	-	-	-	-

Corporation	instruments wholesale industry and Retail, after-sales service industry			thousand)			thousand)					
United Medical Technology (ShangHai) Co., Ltd.	International trade, medical precision instruments wholesale & retail, product after sales service Precision instruments wholesale industry and Retail, after-sales service industry	Registered capital amount: USD 400,000	(Note 1)	12,126 (USD 400 thousand)	-	12,126	12,126 (USD 400 thousand)	-	-	-	-	-

Investment amount remitted from Taiwan to China at the end of the current period Remittance from Taiwan to China	Authorized investment amount by Investment Commission, MOEA	Investment amount cap in China according to Investment Commission regulations Investment amount limited in China
Region investment amount	Investment Commission, MOEA	
$647,210 (USD 5,000 thousand) (CNY 98,000 thousand)	$847,714 (USD 11,400 thousand) (CNY 98,000 thousand)	$1,063,897

Note 1: Direct investment in China.
Note 2: Reinvest in companies in China through Chinese Company (Shinva United Orthopedic Corporation).
Note 3: Include technical pricing of RMB 30,000 thousand.

Table 7-1. The significant transactions that are directly or indirectly conducted by the Company through third region business or re-invested Chinese company are as follows:

(1) Purchase amount and percentage, and ending accounts receivable balances and percentage: Unit:NT$1,000

Year	Company name	Purchase amount	Percentage to the company's purchase	Ending accounts receivable balances	Percentage %
2016	United Medical Co., Ltd.	$59,743	10.25%	$13,568	24.21%

(2) Sale amount and percentage, and ending accounts receivable balances and percentage:

Year	Company name	Sales amount	Percentage to the company's sales	Ending accounts receivable balances	Percentage %
2016	United Medical Instrument Co., Ltd.	$277,446	20.44%	$63,920	15.48%
2016	United Medical Co., Ltd.	27,335	2.02%	3,046	0.74%
2016	Shinva United Orthopedic Corporation	1,760	0.13%	1,674	0.41%

(3) Ending balance of endorsement, guarantee or collateral provided and purpose:

Please see Appendix 2 of Note 13 attached.

(4) Maximum balance of financing, ending balance, interest rate range and total interest in the period:

Please see Appendix 1 of Note 13 attached.

(5) Other transactions that have significant impact on the profits and losses or financial status of the current period: none.

6. Any financial difficulties experienced by the company and its affiliated businesses during the most recent year and as of the date of publication of this report, as well as the impact of the said difficulties on the financial condition of this company shall be listed: None.

VII. Review and Analysis of Financial Status and Financial Performance and Assess Risk Matters

1. Analysis of financial status

Consolidated financial statements

Comparative analysis of financial condition

Unit: NT$1,000

Item \ Year	2016	2015	Increases (decreases)	Increase/decrease ratio (%)
Current assets	1,503,925	1,862,972	(359,047)	-19.27
Investment adopting equity method	414,657	0	414,657	100.00
Property, plant and equipment	927,242	661,865	265,377	40.10
Intangible assets	38,329	15,135	23,194	153.25
Other Assets (Note 1)	71,612	53,262	18,350	34.45
Total assets	2,955,765	2,593,234	362,531	13.98
Current liabilities	843,254	638,187	205,067	32.13
Non-current liabilities	310,965	181,998	128,967	70.86
Total liabilities	1,154,219	820,185	334,034	40.73
Capital	717,469	717,469	0	0.00
Capital reserve	915,406	912,988	2,418	0.26
Retained earnings	187,080	156,049	31,031	19.89
Other equity	(46,793)	(13,457)	(33,336)	247.72
Non-controlling equity	28,384	0	28,384	100.33
Total equity	1,801,546	1,773,049	28,497	1.61
Note 1. Other assets include non-current financial assets that are measured at cost, investment in bond instruments that have active markets, deferred income tax assets and other non-current assets.				

- Analysis of the Increase/decrease ratio that is more than 20% over the past two years

  Increase in investments that follow equity method: Mainly due to increase in holdings of Shinva United Orthopedic Corporation up to 49%.

  Increase of property, plant, and equipment: Mainly due to the purchase of land of office at Taipei, buildings, machinery equipment, and prepaid equipment expense caused by purchasing equipment for third phase of Kaohsiung plant.

  Decrease in intangible assets: Mainly due to the increase in R&D expenses for wear non-aging/aging test.

  Increase in other assets: Mainly due to increase in deferred income tax assets for this period in comparison with last year.

  Increase in current liabilities: Mainly due to increase in short-term loans for this period in comparison with last year.

  Increase in non-current liabilities: Mainly due to long-term deferred income that is caused by investment in affiliate companies in China.

  Increase in total liabilities: Mainly due to increase in short-term loans and long-term deferred income caused by investment in affiliate companies in China.

  Increase in other equities: Mainly due to increase in foreign exchange losses of foreign operations of the company.

  Increase in non-controlling interests: Mainly due to investment in subsidiaries in Europe and Japan by the company for the current period, which are not 100% owned, thus there is no controlling interest.
- Impact of changes in the financial status over the past two years: No significant impact on the financial status.
- Future response plan: not applicable.

Individual financial statement

Comparative analysis of financial conditions

Unit: NT$1,000

Item / Year	2016	2015	Increase (decrease)	Increase/decrease ratio (%)
Current assets	1,277,147	1,624,188	(347,041)	-21.37
Adopt the equity method in investments	613,615	55,582	558,033	1003.98
Property, plant and equipment	815,043	611,699	203,344	33.24
Intangible assets	32,613	15,134	17,479	115.49
Other Assets (Note 1)	71,000	52,977	18,023	34.02
Total assets	2,809,418	2,359,580	449,838	19.06
Current liabilities	726,447	406,175	320,272	78.85
Non-current liabilities	309,809	180,356	129,453	71.78

Total liabilities	1,036,256	586,531	449,725	76.68
Capital	717,469	717,469	0	0.00
Capital reserve	915,406	912,988	2,418	0.26
Retained earnings	187,080	156,049	31,031	19.89
Other equity	(46,793)	(13,457)	(33,336)	247.72
Total equity	1,773,162	1,773,049	113	0.01

Note 1. Other assets include non-current financial assets that are assessed at cost, investment in bond instruments that have active markets, deferred income tax assets and other non-current assets.

- Change analysis ratio for Increase/decrease that is more than 20% over the past two years

Increase in current assets: Mainly due to increase in cash and cash equivalents for this period in comparison with last year.

Increase in investments that adopt equity method: Mainly due to increase holdings of Shinva United Orthopedic Corporation up to 49%.

Increase in property, plant, and equipment: Mainly due to the purchase of land or office at Taipei, buildings, machinery equipment, and prepaid equipment expense on account of purchasing equipment for the third phase of the Kaohsiung plant

Decrease in intangible assets: Mainly due to increase in R&D expenses for wear non-aging/aging test.

Increase in other assets: Mainly due to increase in the deferred income tax assets for this period in comparison with last year.

Increase in current liabilities: Mainly due to increase in short-term loans for this period in comparison with last year.

Increase in non-current liabilities: Mainly due to long-term deferred income on account of investment in the affiliate companies in China

Increase in total liabilities: Mainly due to increase in short-term loans and long-term deferred income on account of investment in affiliate companies in China.

Increase in other equities: Mainly due to increase in foreign exchange losses of foreign operations in which the company has invested.

Impact of changes in the financial status over the past two years: No significant impact on the financial status.

Future response plan: not applicable.

2. Financial performance

Consolidated financial statements

Table for comparison and analysis of financial performance

Unit: NT$1,000

Item / Year	2016	2015	Increase (decrease)	Proportion of changes (%)
Net Revenue	1,383,340	1,392,573	(9,233)	-0.66
Operating costs	435,729	406,729	28,959	7.12
Gross profit before adjustment	947,652	985,844	(38,192)	-3.87
Realized (unrealized) sales profit and loss	31,816	0	31,816	100.00
Gross profit	979,468	985,844	(6,376)	-0.65
Operating expenses	819,782	806,616	13,166	1.63
Operating Profit	159,686	179,228	(19,542)	-10.90
Non-operating income and expenses	(974)	(13,458)	12,484	-92.76
Net income before tax	158,712	165,770	(7,058)	4.26
Income tax expenses	17,863	31,963	(14,100)	-44.11
Current period net profit	140,849	133,807	7,042	5.26
Comprehensive income or loss (net value after tax) during this period	(49,034)	(3,149)	(45,885)	1457.13
Total amount of comprehensive profit/loss during the period	91,815	130,658	(38,843)	-29.73
Net profits that belong to the parent company for the current period	146,601	133,807	12,794	9.56
Total net profits and losses that belong to the parent company for the current period	102,816	130,658	(27,842)	-21.31

- Change analysis ratio for Increase/decrease that is more than 20% over the past two years

  Increase in profits and losses for sales products recognized (Unrecognized): Mainly due to sale of 100% of investments in China that follows the equity method, thus its assessment was changed from 100% write-off of realized (unrealized) sales profit and loss to investments that follows the equity method.

  Decrease in non-operating income and expenses: Mainly due to long-term deferred income and foreign exchange losses and increase in losses in investment that arise from investments in affiliate companies in China.

  Decrease in income tax expenses: Mainly due to return income tax expenses for the year 2012 and 2014.

  Increase in profits and profits that belong to the parent company for the current period: Mainly due to growth in revenue and gross profit in comparison with last year and good control over cost.

  Decrease in other comprehensive profits and losses (net amount after tax) for the current period: Mainly due to increase in foreign exchange losses in the financial statements of the foreign operations in which the company has invested.

  Decrease in comprehensive profits and losses for the current period: Mainly due to increase in foreign exchange losses of foreign operations in which the company has invested.

  Decrease in comprehensive profits and losses and comprehensive profits and losses that belong to the parent company for the current period: Mainly due to investment in subsidiaries in Europe and Japan by the Company for the current period that are not 100% owned, thus these are non-controlling interests.

- Expectations for the sales in the following year and its estimation basis and the main factors for the continuing growth or recession for sales: Expand in Europe, U.S, Japan, and China market by utilizing the products of the self-owned brand, and the new products would sustain the growth.
- Impact of changes in the financial status over the past two years: No significant impact on the financial status.

- Future response plan: not applicable.

Analysis for changes in gross profit: Increase/decrease ratio has not reached 20%, analysis is not needed.

Individual financial statement

Table for comparison and analysis of financial performance

Unit: NT$1,000

Item / Year	2016	2015	Increase (decrease)	Proportion of changes (%)
Net Revenue	1,352,145	1,129,436	222,709	19.72
Operating costs	582,789	475,003	107,786	22.69
Gross profit before adjustment	769,356	654,433	114,923	17.56
Realized (Unrealized) profits from sales	(8,057)	(21,361)	13,304	-62.28
Gross profit	761,299	633,072	128,227	20.25
Operating expenses	584,638	483,817	100,821	20.84
Operating Profit	176,661	149,255	27,406	18.36
Non-operating income and expenses	(13,243)	15,766	(29,009)	-184.00
Net income before tax	163,418	165,021	(1,603)	-0.97
Income tax expenses	16,817	31,324	(14,397)	-46.12
Current period net profit	146,601	133,807	12,794	9.56
Comprehensive income or loss (net value after tax) during this period	(43,785)	(3,149)	(40,636)	-1290.44
Total amount of comprehensive profit/loss during the period	102,816	130,658	(27,842)	-21.31

- Change analysis ratio for Increase/decrease that is more than 20% over the past two years

Increase in cost of goods sold: Mainly due to substantial increase in revenue.

Increase in profits and losses for sales assessed (Not assessed): Mainly due to sales of 100% of investments in China that follows the equity method, thus its assessment was changed from 100% write-off of assessed (not assessed) sales profit and loss to investments that follow the equity method.

Decrease in unrecognized profits of sales: Mainly due to growth in revenue from all subsidiaries that resulted in decrease in inventory.

Increase in gross profit: Mainly due to substantial increase in revenue.

Increase in operating expense: Mainly due to increase in sales and R&D expenses. The increase in sales expenses is due to increase in market promotion expenses, and the increase in R&D expenses is due to increased expenses in developing new products.

Decrease in non-operating income and expenses: Mainly due to long-term deferred income and foreign exchange losses and increase in losses in investment arising from investments in affiliate companies in China.

Decrease in income tax expenses: Mainly due to returned income tax expenses for the year 2012 and 2014.

Decrease in other comprehensive profits and losses (net amount after tax) for the current period: Mainly due to increase in foreign exchange losses of foreign operations in which the company has invested.

Decrease in comprehensive profits and losses for the current period: Mainly due to increase in foreign exchange losses in the financial statements of the foreign operations in which the company has invested.

- Exceptions for sales in the following year and estimation basis and the main factors for the continuing growth or recession in sales: Expanded in Europe, U.S, Japan, and China market by utilizing the products of self-owned brand, and the new products would sustain the growth.
- Impact of changes on the financial status over the past two years: No significant impact on the financial status.
- Future response plan: not applicable.

Analysis of changes in gross profits: Mainly due to growth in revenue in all regions. Growth in revenue is mainly due to difference in products sold and differences in countries.

3. Cash flow

Consolidated financial statements

Cash flow analysis

Unit: NT$1,000

Cash and cash equivalents at the beginning of the year	Annual net cash flow from operating activities	Net cash inflow from investment and financing activities	Cash surplus (insufficient)	Reasons for insufficient cash	
				Investing plan	Financing plan
731,437	182,702	(425,758)	477,926	None	None

Analysis of changes in cash flow this year:

Cash inflows of operating activities mainly sourced from decrease in profit before tax and accounts receivables. Cash outflows are mainly sourced from decrease of recognized sales profit and accounts payable, and the income tax paid.

Cash outflows of investing activities are mainly used in investments of subsidiaries, affiliate companies in China, properties, plants, and equipment and expenses in intangible assets.

Cash inflows of financing activities are mainly sourced from short-term loans. Cash outflows are mainly sourced from cash dividends.

Improvement plans for illiquidity and analysis of liquidity: Does not exhibit illiquidity of cash flow.

Analysis of cash liquidity for the following year: not applicable.

Individual financial statement

Cash flow analysis

Unit: NT$1,000

Cash and cash equivalents at the beginning of the year	Annual net cash flow from operating activities	Net cash inflow from investment and financing activities	Cash surplus (insufficient)	Reasons for insufficient cash	
				Investing plan	Financing plan
662,414	159,035	(486,541)	334,908	None	None

Analysis of changes in cash flow this year:

Cash inflows of operating activities are mainly sourced from profit before tax. Cash outflow is mainly sourced from increase on account of receivables and decrease of account payables and the income tax paid.

Cash outflows in investing activities are mainly used in subsidiaries, affiliate companies in China, properties, plants, and equipment and expenses in intangible assets.

Cash inflows of financing activities are mainly sourced from short-term loans. Cash outflows are mainly sourced from cash dividends.

Improvement plans for illiquidity and analysis of liquidity: Does not exhibit illiquidity in cash flow.

Analysis of cash liquidity for the following year: not applicable.

4. Major capital expenditures in the most recent year and their impact on the company's finances: none.

5. Policy on investment in other companies, main reasons for profit/losses resulting therefrom, plans for improvement and investment for the upcoming fiscal year:

Investee Company	Holding ratio at the end of the period (%)	Investment policy	Main reason for profits or losses	Improvement plans	Investment plans in the following year
United Medical (B.V.I) Co.	100%	Indirect investments in China through the third region	The majority of the profits of the holding company is from the gains and losses in investment.	None	None
UOC America Holding Corporation	100%	Indirect investments in U.S through the third region	The majority of the profits of the holding company is from the gains and losses of the investment.	None	None
UOC Europe Holding SA	75%	Indirect investments in Europe through the third region	The majority of the profits of the holding company is from the gains and losses of investment.	None	None
United Biomech Japan	51%	close to market	We are still actively trying to get the product regulations to get registered at this stage.	None	None
Shinva United Orthopedic Corporation	49%	Work with Shinva Medical Instrument Co., Ltd to expand the sales of domestic and imported products in the China market to overcome the China's make in China policy.	Build a comprehensive marketing system and domestic products to enhance market share.	None	None
Lemax Company Limited (Note 1)	100%	Indirect investments in China through the third region	The majority of the profits of the holding company is from the gains and losses in investment.	None	None
UOC USA,Inc. (Note 2)	100%	To be close to the market	Adopt dealer or direct selling model due to regional characteristics to actively expand the market share.	None	None

United Orthopedic Corporation (Suisse) SA (Note 3)	100%	To be closer to the market	Adopt dealer or direct selling model due to regional characteristics to actively expand the market shares.	None	None
United Orthopedic Corporation (France) SAS (Note 3)	100%	To be closer to the market	Adopt dealer or direct selling model due to regional characteristics to actively expand the market share.	None	None

Note 1: A re-investment in United Medical (B.V.I) Co., which is a subsidiary of the Company.
Note 2: A re-investment in UOC America Holding Corporation, which is a subsidiary of the Company.
Note 3: A re-investment in UOC Europe Holding SA, which is a subsidiary of the Company.

6. Risk assessment shall include the following items over the past year and as of the date of publication of this annual report

(I) The Impact of interest rates, exchange rate fluctuation and inflation situation on the company's profit and loss, and the future countermeasures:

(1) Impact from changes in interest rate

The global market is in a competition of currency depreciation in recent years, thus the risks are relatively lower. Even though the USD is expected to appreciate, the range will not be too high or too quick. If the future interest rate has larger volatility, the company will observe the trend and opt for floating interest loans to hedge the fluctuations in interest rates than utilize other capital market financing tools to raise funds.

(2) Impact from exchange rate changes

The sales that are denominated in foreign currency accounted for 68.9% of the total sales in 2016, and the imported materials that are denominated in foreign currency accounted for 71.9% of total imports. On the whole, the company relies on the principle of natural hedging and continuously monitors the fluctuation in the market exchange rate, and tries to minimize the possible risks that changes in the exchange rate might bring to the company.

(A) The effect of changes in exchange rates on the Company's revenue over the last three years is as follows:

Units: NT$1,000; %

Year / Item	2014	2015	2016
Net currency exchange gain (loss)	10,472	(8,917)	(30,040)
Net Revenue	1,100,788	1,392,573	1,383,340
Operating (loss) gain	101,480	179,228	159,686
Net foreign exchange profits (losses)/Net operating income	0.95%	-0.64%	-2.17%

profits (losses)			
Net foreign exchange profits (losses)/Operating profits (losses)	10.32%	-4.98%	-18.81%

(B) Specific measures in response to changes in exchange rates:

a. The business units would first evaluate the trends in currencies and consider the impact of changes in exchange rate before quoting to the customer, and the business unit would consider a more robust and conservative exchange rate as the basis for the quote, so that the impact of appreciation/ depreciation of NTD is minimal.

b. Open a foreign currency account with the banks to maintain sufficient foreign currency to meet the needs of foreign currency. Exchange the remittance of sales into NTD in accordance with actual exchange rate and deposit it in NTD account or foreign currency account. Foreign currencies that are earned from the exports are preferred for use while paying for imports to reduce the impact of changes in foreign exchange.

c. Collect information on changes in foreign exchange any time and fully grasp the domestic and international exchange rate movements to adjust the ratio of foreign currency assets and liabilities, so that the exchange rate fluctuations have a natural hedge.

(C) Impact from inflation

The inflation for the most recent year has had no impact on the profits and losses of the company. The company will keep a close watch on the fluctuations in the market prices and maintain cordial relationship with the suppliers and the customers and collect information on inflation and government pricing policy.

(2) Policies on high-risk, highly leveraged investments, loans to other parties, endorsements, guarantee, and derivatives trading, the main reasons for the profits or losses, and future measures required.

(1) The company is not engaged in high-risk or highly leveraged investments over the past year.

(2) As of March 31, 2017, the company has extended a loan of 770 thousand CHF to United Orthopedic Corporation (Suisse) SA, the re-invested subsidiary, in accordance with the Capital Loan and Operating Procedures. United Orthopedic Corporation (Suisse) SA, the re-invested subsidiary, has extended an actual loan of

300 thousand Euros to United Orthopedic Corporation (France), the re-invested subsidiary.

(3) As of March 31, 2017, the company has taken a loan from the bank for 3.5 million USD with joint liability for UOC USA, Inc., the re-invested subsidiary, in accordance with endorsement and guarantee operating procedures.

(4) The company is engaged with derivatives products. As of March 31, 2017, there are no future foreign exchange contracts that have not been settled.

(3) Future R&D plans and the R&D expenses expected to be invested:

Unit: NT$

Plan title	Progress	Need to invest more R&D expenses	Time expected to complete mass production	Main reasons that would affect the success of R&D
Disposable surgical instruments	Developing mass productions	500,000	03/31/2017	Plastic injection molding parameters
No collar femoral head	Under design	1,500,000	07/31/2017	None
Modular acetabular cage system and tools	Developing mass productions	2,800,000	09/30/2017	None
Tumor rebuild artificial joints and tools II	Developing mass productions	10,000,000	10/31/2017	CoCrMo Precision Casting Technology and mirror polishing
E-poly artificial joint insert and fillings	Developing mass productions	10,000,000	10/31/2017	Increasingly stringent new test specifications
Infection treatment of artificial knee joint	Early phase research	1,100,000	12/31/2017	Wear test
Rotating the modular tibial base	Developing mass productions	800,000	12/31/2017	None
Short stalk handle and tool	Under design	6,500,000	12/31/2017	None
Double movement acetabular system and tool	Under design	6,500,000	06/30/2018	Inside the ball mirror polished
Non-cement fixed femoral end implants	Early phase research	3,000,000	06/30/2018	None
Corail stalk handle and tool	Early phase research	6,000,000	07/31/2018	HA spray
3D printed acetabular system and tool	Early phase research	5,000,000	12/31/2018	Microporous structural design
Single condyle artificial knee joints and tools	Early phase research	10,800,000	12/31/2018	Surgical instrument design
Modeled stalk handle and tool	Early phase research	8,000,000	12/31/2018	Combine mechanism and the corresponding

				corrosion phenomenon

(4) The Impact of changes of important domestic and foreign policies and laws on the company's finance and business, and the countermeasures: none

(5) The Impact of Technology Changes and Industry Changes on Our Company's Finance and Business, and the Countermeasures: none

(6) The Impacts of Change of Corporate Image on the Enterprise Crisis Management and the Countermeasures:

Ever since the company has been listed on September 2004, it has
Always upheld the professional and integrity of the operating principles, paid attention to corporate image and risk control, and has a positive impact on the company's visibility and improvements to its image, sound management, and its sustainability. The company will continue to operate in maximum efficiency to serve its best interests and share the benefits with all the shareholders and employees. Thus, there are no major events that would impact the company's corporate image.

(7) The Expected Benefits and Possible Risks to Engage in Mergers and Acquisitions (M&A) and the Countermeasures: Not applicable

(8) The Expected Benefits and Possible Risks from Expansion of the Plants and the Countermeasures:

The first phase of Kaohsiung plant has been completed and is running well since February 14, 2011. It mainly deals in precision forging and porous titanium bead sintering production line. The initial production line is set to produce 60,000 pieces of titanium alloy and cobalt chromium molybdenum alloy. The production can expand to 240,000 pieces by expanding the production line and production in shifts as per the market needs in the future. The expected production of titanium alloy surface porous titanium bead sintering is 15,000 pieces. These are sufficient to meet the growth needs of the company's own products. The forging production line has been producing products of the company since July 2011, and the mass production transfer for all products in the plant has been completed by the end of 2011. In response to market needs, the company has planned to add a new forging production line in Q4, 2015. The production has started in Q2, 2016, and the forging capability has been raised to 80,000 pieces (one batch of production). The product line of titanium alloy surface porous titanium beads sintered high vacuum sintering furnace has completed biocompatibility test in Q1, 2014 and conducted mass production testing for application products and has been mass-producing since Q1, 2015.

The construction of phase 2 of Kaohsiung plant has started in February, 2012 and has been completed by November, 2012. Phase 2 mainly added: (1) Production line of precision casting. Process verification and development of initial replacement knee joint and hip joint castings has been completed in 2013, and mass production and mass production approval had been completed gradually. By Q3, 2014, it has replaced all outsourcing production and turned it into an in-plant production. It has reduced the production lifecycle effectively. The company will continue to improve the production and improve production efficiency and reduce casting cost. It will also cooperate with the design of the second generation of tumor reconstruction of artificial joints and U2 knee femoral component of the middle size of the product and develop castings that are required for production. The initial production setting of Co-Cr-Molybdenum alloy for artificial joints castings is 60,000 pieces, and the production capacity can be expanded into 150,000 pieces in the future in accordance with needs. (2) Plasma spraying production line: It is able to spray-coat titanium powder on the surface of titanium alloy artificial joints, or do a composite spray on the HA coating. Titanium spraying manufacturing development and verification have been completed by December 2015, and mass production and stability of production testing has begun. By Q4, 2016, it has been put into operation gradually. The initial annual production setting is 30,000 pieces, and the production capacity can be expanded to 150,000 pieces in the future in accordance with needs.

After phase two of Kaohsiung plant has been completed, the processing energy for the mold and measuring tools required for forging and casting has been established, as well as the production line of precision casting of Cr-Cr-Mo alloy and spraying of titanium alloy surface. The company has control over the key production tool from design to production and has effectively reduced the time of supply. By Q4, 2015, the company has invested more in machining equipment, and has officially put it to production by Q1, 2016 to meet the expanding needs of the nearly fully loaded production capacity of Hsinchu plant. The focus of the plant is on the production of tibial base, ace tabular cup and bone screw and is at an early stage.

Forgings, castings and surface treatments needed by the company were outsourced to professional plants in Europe and U.S. After mass-production at Kaohsiung plant, the cost of outsourcing is expected to decrease by 20~30%, and the production delivery period is able to shorten from 8~12 to 6~8 weeks; the special surface treatment is shortened to 2~3 weeks, which provides a substantial increase in the flexibility of business orders and market competitiveness.

With business growth, the production capacity of the plant at Hsinchu is insufficient. Even though new production lines have been set up in the remaining areas of phase-2 of the plant, it was estimated that it would meet the new needs only of 2016. As a result, the planning of the construction of Phase-3 of Kaohsiung Plant Phase commenced in February 2015 and the construction has commenced in February 2016 and is expected to be completed by May 2017. In addition, investments in relevant equipment will be made on the basis of needs of production in 2018. The production technology at Hsinchu will also be transferred. It is expected to go into operation by Q3, 2017 to solve the problem of insufficient capacity at the Hsinchu plant. With the expanding business needs for production line equipment, the estimated maximum capacity of the annual output of knee and hip joint is about 150,000 pieces in total, and gradually achieve the one-stop production strategy objectives in the Kaohsiung plant.

(9) The Risks Faced by Concentrated Procurement and Sales, and the Countermeasures:

The Company's purchase and sales are not focused on specific manufacturers or customers.

(10) The impact and risks arising from major exchange or transfer of shares by directors, supervisors or shareholders with over 10 percent of stake in the company and the countermeasures:

The Directors, Supervisors or shareholders holding more than 10% of the company's shares do not have any substantial transfer or changes in the shares of the Company over the past year and as of the date of publication of the annual report. Thus, it did not have any significant impact on the company.

(11) Impact, risk, and response measures related to any change in the administrative authority towards the company's operations:

In January 2016, the company invested and jointly founded Shinva United Orthopedic Corporation with Shinva Medical Instrument Co., Ltd and New China Life Health Co., Ltd. In accordance with the cooperation agreement, the Company sold shares of United Medical Instrument Co., Ltd, Medical Instrument Ltd., and United Medical Technology (Shanghai) Co., Ltd. to Shinva United Orthopedic Corporation.

The Company holds 49% shares of Shinva United Orthopedic Corporation. Thus, starting from 2016, recognition method of re-investment subsidiaries at China has changed from consolidated statement to equity method, and the assessment of profits and losses is done through the equity method.

Shinva United Orthopedic Corporation will not only carry on the <import> of artificial joints of the Company, but also actively manufacture Chinese <domestic brands> artificial joints. The company will target the import and domestic brand market and avail of benefits from both sides. The company will take advantage of the China's 13th Five-Year Plan to rapidly expand the domestic production and expand sales channels and further expand the market share.

With mutual trust and cooperation, all the significant resolutions of the Company will be implemented by the Board of Directors. The Company holds over 1/3 of the seats in the Board of Shinva United Orthopedic Corporation. The company still holds the rights to make decisions and voting concerning important resolutions in the future, and there is no significant impact on the company as a whole.

(12) Litigation and Non-Litigation Events:

1. Confirmed judgment, ongoing litigation, and non-litigation or administrative contention items involving the Company over the past two years and as of the date of publication of the annual report, which might impact the shareholders' equity or price of securities: None
2. Confirmed judgment, ongoing litigation, and non-litigation or administrative contention items involving Directors, Supervisors, General Manager, responsible person, and stockholders that hold more than 10% of the company's stock in the last two years and up to the printing of this annual report that can have a significant impact on shareholders' equity or securities prices: None

(13) Other material risks and response measures: None.

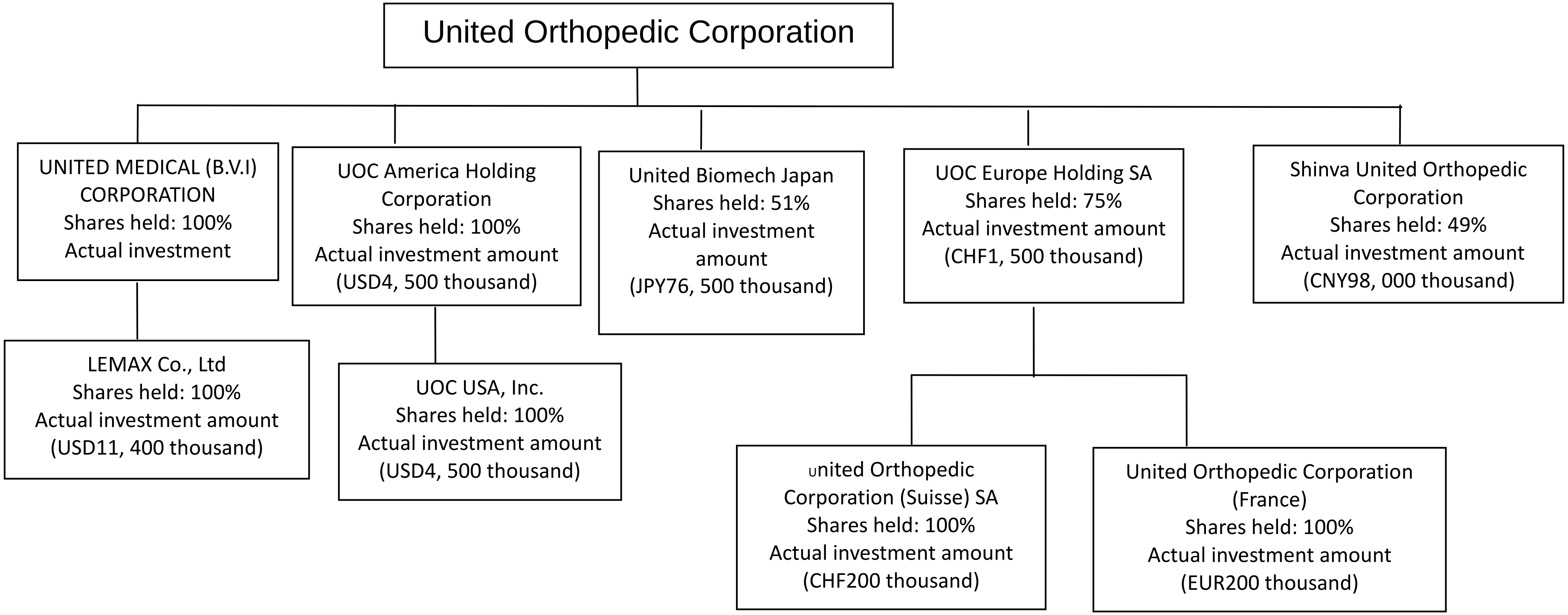
7. Other important matters: None.

VIII. Special Items

1. Relevant information of affiliated businesses:

(1) Consolidated Operation Report of Affiliates

1. Organization structure of affiliated businesses



2. Basic information of various affiliated businesses

31 December 2016

Name of business	Date of Incorporation	Address	Actual paid-in capital	Main business items
United Medical (B.V.I) Co.	93.09.07	Note 4 (1)	USD11,400	Investment and trading business
Lemax Co.,Ltd	93.02.03	Note 4 (2)	USD11,400	Holding Company
UOC America Holding Corporation	101.05.10	Note 4 (3)	USD4,500	Investment and trading business
UOC USA, Inc.	101.07.19	Note 4 (4)	USD4,500	Sales of medical equipment
UOC Europe Holding SA	105.05.23	Note 4 (5)	CHF1,500	Investment and trading business
United Orthopedic Corporation (Suisse) SA	105.06.29	Note 4 (6)	CHF200	Sales of medical equipment
United Orthopedic Corporation (France)	105.07.05	Note 4 (7)	EUR200	Sales of medical equipment
United Biomech Japan	105.08.05	Note 4 (8)	JPY76,500	Sales of medical equipment
Shinva United Orthopedic Corporation	105.01.13	Note 4 (9)	CNY98,000	Manufacture and sale of orthopedic equipment

Note 1: All related enterprises regardless of size, should be disclosed.

Note 2: For all affiliate companies that have plants, and the production value of products of the plants worth more than 10% of the operating income of the holding company, the name of the plants, the date of establishment , addresses, the main productions of the plans also be listed.

Note 3: If the affiliate company is a foreign company, the title of the company and the address may be shown in English, and the date of establishment may also be shown in the Gregorian calendar. The paid-up capital may be expressed in foreign exchange (However, the exchange rate as of the publication date also be shown.).

Note 4: (1) TrustNet Chambers, PO Box 3444 Road Town, Tortola, British Virgin Islands.
(2) Portcullis TrustNet Chambers, PO Box 3444 Road Town, Tortola, British Virgin Islands.
(3) Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.
(4) 20 Fairbanks, Suite 173, Irvine CA 92618.
(5) Avenue Général Guisan 60A, 1009 Pully, Switzerland.
(6) Avenue Général Guisan 60A, 1009 Pully, Switzerland.
(7) 21 Rue de la Ravinelle, 54000 Nancy, France.
(8) 20F, Yokohama Landmark Tower, 2-2-1 Minatomirai, Nishi-ku, Yokohama, Kanagawa 220-8120, Japan.
(9) No. 7, Taimei Rd., Zibo National New & High-tech Industrial Development Zone, Zibo, Shandong Province, China

3. Those who can been presumed to have controlling and subordinate relationship in accordance with Article 369-3 of the Company Law:

According to the above organization chart, the Company's affiliated enterprises are all its subsidiaries.

4. The industries covered by the affiliate companies, and their distribution of work if the businesses of affiliate companies are interconnected with others:

(1) Industries that the overall affiliate companies are involved with: Mainly for orthopedic artificial implants, surgical equipment manufacturing and sales.

(2) Distribution of work if the businesses of affiliate companies are interconnected with others:

The company has invested in United Medical (B.V.I.) Co., which in turn has re-invested in Lemax Co., Ltd, which then has re-invested in other companies in China. All subsidiaries in China have been sold on January 1, 2016. The company has also invested in Shinva United Orthopedic Corporation for the production and sales of artificial joints in China to respond to the "2025 Made in China" policy proposed by the Chinese government. It also imports artificial joints of the company to build a comprehensive marketing system and gain market share. The Company has also invested in UOC America Holding Corporation, and has indirectly invested in UOC USA, Inc. using UOC USA, Inc. as the marketing front in America. The marketing model followed is both dealer and direct selling to quickly establish a complete marketing system to increase the market share. The company has also invested in UOC Europe Holding SA in 2016, and then indirectly invested in United Orthopedic Corporation (Suisse) SA and United Orthopedic Corporation (France) setting the marketing operation in Switzerland and France as bases for European operations. The marketing models adopted are dealer and direct selling to maintain high growth rate in the European market and expand the market share at a rapid pace. The company has also invested in United Biomech Japan in the same year and turned it into a marketing office in Japan, so that the product registration may be acquired smoothly, and will enter into Japanese market as soon as possible.

5. Information of directors, supervisors and general managers in all affiliated companies:

Name of business	Title (note 1)	Name or representative	Shares held	
			Number of Shares	holding ratio
United Medical (B.V.I.) Co.	Director	Lin, Yan Shen	11,400	100%
Lemax Co., Ltd	Director	Lin, Yan Shen	11,400	100%
UOC America Holding Corporation	Director	Lin, Yan Shen	900	100%
UOC USA, Inc.	Chairman	Lin, Yan Shen	900	100%
UOC Europe Holding SA	Chairman	Lin, Yan Shen	1,500	75%
United Orthopedic Corporation (Suisse) SA	General Manager	Bopp François	200	100%
United Orthopedic Corporation (France)	General Manager	Bopp François	200	100%
United Biomech Japan	Chairman	Kazuya Oribe	765	51%
Shinva United Orthopedic Corporation	Chairman	Cui, Hong-Tao	98,000,000	49%

Note 1: If the affiliate company is a foreign company, please list those whose job position is equivalent to those for domestic companies.
Note 2: If the invested company is a joint-stock company, please list the number of stocks and shareholding ratio. For others, please list the capital contribution and contribution ratio and make a note on it.

6. Operating status of affiliated enterprises:

Unit: NT$1,000

Name of business	Capital	Total assets	Total liabilities	Net value	Operating Revenue	Operating profit	Current profit and loss (after tax)	Earnings per share (after tax/dollar)
United Medical (B.V.I.) Co.	360,194	128,964	0	128,964	0	(157)	6,380	—
Lemax Co., Ltd	360,194	123,547	0	123,547	0	0	6,483	—
UOC America Holding Corporation	139,768	248,974	91,593	157,381	207,769	6,150	2,073	—
UOC USA, Inc.	139,768	327,032	193,016	134,016	310,495	(4,401)	(4,388)	—
UOC Europe Holding SA	67,047	50,845	534	50,311	0	0	(12,965)	—
Name of business	Capital	Total assets	Total liabilities	Net value	Operating Revenue	Operating Profit	Current profit	Earnings per share

							and loss (after tax)	(after tax/dollar)
United Orthopedic Corporation (Suisse) SA	6,865	120,242	112,216	8,026	53,347	1,130	1,760	—
United Orthopedic Corporation (France)	7,442	68,867	75,585	(6,718)	6,635	(13,793)	(13,797)	—
United Biomech Japan	23,370	34,183	1,926	32,257	0	(9,635)	(9,667)	—
Shinva United Orthopedic Corporation	994,002	1,114,563	217,056	897,507	446,178	(20,664)	(15,503)	—

Note 1: All related enterprises regardless of size, should be disclosed.

Note 2: If the affiliate company is a foreign company, all relevant numbers shall be expressed in NT$by using the exchange rate as of the publication date.

Note 3: The exchange rates for the balance sheet are as the following: 1 USD = 32.25 NT$, 1 CNY = 4.617 NT$,
1 EUR = 33.90 NT$, 1 CHF = 31.525 NT$,
1 EUR = 1.0753 CHF, 1 CHF = 0.9299 EUR
1 JPY = 0.2756 NT$

The exchange rates for the income statement are as the following: 1 USD = 32.5375 NT$, 1 CNY = 4.806 NT$,
1 EUR = 34.65 NT$, 1 CHF = 32.235 NT$,
1 EUR = 1.0749 CHF, 1 CHF = 0.9303 EUR
1 JPY = 0.2933 NT$

(2) Reports of all entities: Please refer to the consolidated report of the parent-subsidiaries.

2. Private issuance of marketable securities shall disclose the approval date and number of the shareholders' meetings or the Board of directors meeting, the basis and reasonability of the price set, the selection method of specific person and the necessary reasons for private issuance: None.

3. Holding or disposal of this company’s shares by a subsidiary company during the last year, up to the publication date of this report: none.

4. Other necessary supplementary information: None.

IX. Any event that results in substantial impact on the shareholders’ equity or price of the company’s securities as prescribed by Article 36, Paragraph 3, Sub-paragraph 2 of the Securities and Exchange Act that has occurred during the past year, up to the publication date of this report:

The acquisition of 100% shares of A-Spine Asia Co., Ltd. had been approved by the Board of Directors on March 7, 2017. The acquisition of 100% shares has been completed on March 31, 2017. A-Spine Asia Co., Ltd. has become a subsidiary of the company on April 1, 2017 and its input has been merged into the Company's consolidated statement.

United Orthopedic Corporation

Chairman: Lin, Yan-Shen