

**Stock number: 4129**



# United Orthopedic Corporation

2018 Shareholders' Meeting

Proceedings Manual

June 12, 2018

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United Orthopedic Corporation  
2018 Shareholders' Meeting Agenda

- I. Time: 9:00 AM, June 12, 2018 (Tuesday)
- II. Place: 3F, No. 82, Section 1 1, Chenggong Road, Yonghe District, New Taipei City (Auditorium of the Atomic Energy Council)
- III. Opening of the Meeting (Report the number of shares in attendance and announcement of the opening of the meeting)
- IV. Chair's Remarks
- V. Reports

- (I). The Company's 2017 Business Report and Financial Statements.
- (II). The Supervisors' review of the 2017 Business Report, Financial Statements, Consolidated Financial Statements, and Earnings Distribution Proposal.
- (III). 2017 Employee and Director & Supervisor Remuneration Distribution Report.
- (IV). Report on Investment in Mainland China.
- (V). The Company's Endorsement/Guarantee Report.
- (VI). The Company's Convertible Bonds Report.

VI. Ratifications

- (I). 2017 Business Report and Financial Statements.
- (II). 2017 Earnings Distribution Proposal.

VII. Discussions

- (I). Proposal for the issuance of new shares to employees with restricted rights.
- (II). Proposal to authorize the Board of Directors to release stocks of the subsidiary company A-SPINE Asia Co., Ltd. or relinquish the subscription of shares in the cash capital increase.

VIII. Other Proposals and Extempore Motions

## Reports

- (I). Case: The Company's 2017 Business Report and Financial Statements are hereby submitted for approval.  
Explanation: Please refer to Attachment 1. (Pages 9-11)
- (II). Case: The Supervisors' review of the 2017 Business Report, Financial Statements, Consolidated Financial Statements, and Earnings Distribution Proposal are hereby submitted for approval.  
Explanation: Please refer to Attachment 2. (Page 12)
- (III). Case: The 2017 Employee and Director & Supervisor Remuneration Distribution Report is hereby submitted for approval.  
Explanation: I. Pursuant to Article 20 of the Company's Articles of Incorporation, the Remuneration Committee has submitted the 2017 Employee and Director & Supervisor Remuneration Distribution Proposal to the Board of Directors and the Company plans to appropriate 3% of profits as remuneration for Directors and Supervisors, totaling NT\$6,199,010 and 12% as employee remuneration totaling NT\$24,796,042. The remuneration shall be distributed in cash.
- (IV). Case: Report on Investment in Mainland China is hereby submitted for approval.  
Explanation: The Company has decided to apply to the Investment Commission for the investment of a Mainland China company through a company established in a third region by the resolution of the Board of Directors. Please refer to the following table for the transfer status of the investment which is hereby submitted for approval.

Unit: NT\$1,000

Accumulated investment transfers from Taiwan to China as of the end of 2018 Q1	Investment amount approved by the Investment Commission of the Ministry of	Ceiling on investment in Mainland China imposed by the Investment Commission of the
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	Economic Affairs	Ministry of Economic Affairs
\$647,210 (USD5,000 thousand) and (CNY98,000 thousand)	\$847,714 (USD11,400 thousand) and (CNY98,000 thousand)	\$1,345,724

(V). Case: The Company's Endorsement/Guarantee Report is hereby submitted for approval.

Explanation: The Company's market in the United States is served by investee companies. In response to the growth in business operations, the Company is required to make endorsements and/or guarantees for the following second-tier subsidiary's bank financing credit line.

Recipient of endorsement or guarantee	Bank financing credit line endorsement or guarantee amount	Actual endorsement or guarantee amount
UOC USA, Inc. (Second-Tier Subsidiary)	USD 7.5 million	USD 6 million

Note: The data above is the endorsement and guarantee amount as of 2018 Q1.

(VI).Case: The Company's Convertible Bonds Report is hereby submitted for approval.

Explanation: The Company's second domestic issuance of unsecured convertible bonds has been approved by the Financial Supervisory Commission per Jin-Guan-Zheng-Fa No. 10600254971 Letter dated July 18, 2017 and the total issuance amount was NT\$400 million. Trading began on the Taipei Exchange on August 11, 2017 in accordance with the Taipei Exchange Zheng-Gui-Zhai No. 10600214142 Letter dated August 8, 2017. Please refer to the following table for information on the issuance of bonds.

Type of corporate bonds	Second domestic issuance of unsecured convertible bonds	
Issuance date	August 11, 2017	
Denomination	NT\$100,000	
Place of issue and trading	Republic of China	
Issuance price	Issued at 100% of face value	
Total	NT\$400,000 thousand	
Interest rate	Coupon interest rate 0%	
Term	3 years maturity date: August 11, 2020	
Guarantee agencies	None	
Consignee	Taipei Fubon Commercial Bank Co., Ltd.	
Underwriter	Fubon Securities Co., Ltd.	
Certifying attorney	Chiu, Ya-Wen, Attorney at law	
Certifying CPA	Accountant: Chang, Chih-Ming, CPA, Huang, Chien-Che, CPA of Ernst & Young	
Redemption method	Effective period: 3 years The bonds can be converted into the Company's common shares in accordance with the conversion clauses in Article 10 of the Regulations on the Issuance and Conversion of Corporate Bonds or redeemed in advance in accordance with Article 18 of the Regulations. The holders shall be paid in cash at 101.5075% of the nominal value of the bonds in one payment on the mature date.	
The principal that has not been redeemed as of the publish date of the annual report	NT\$0 thousand	
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 (swap or subscription) into common stocks, offshore depository receipts, and other marketable securities as of the publish date of the annual report	0

	Issuance and conversion (swap or subscription) methods	Reference issuance and conversion methods
Possible dilution of equity or impact to the shareholders' equity caused by regulations on the issuance and conversion, exchange, or subscription to stocks	<p>The total amount of convertible corporate bonds that have been issued this time is NT\$400,000 thousand. The impact on earnings per share will be delayed because the duration of the bond is 3 three years and each creditor's conversion request timing is different, but it should not have any major impact on the interests of current shareholders.</p> <p>The coupon rate of the corporate bond is 0% and its conversion price is issued at a premium; therefore, there should no negative impact of the interests of shareholders.</p>	
Name of commissioned custodian of exchangeable underlying	N/A	

## **Ratifications**

Case 1 [Proposed by the Board of Directors]

Case: Adoption of 2017 Business Report and Financial Statements

Explanation: The Company's 2017 Financial Statements, Consolidated Financial Statements, and Business Report have been prepared. The Financial Statements and Consolidated Financial Statements have been audited by the CPAs Chang, Chih-Ming and Huang, Chien-Che of Ernst & Young who have submitted the Audit Report. The Audit Report is submitted along with the "Financial Statements", "Consolidated Financial Statements" and the Business Report" and hereby submitted for ratification. Please refer to Attachments 1, 3 and 4. (Pages 9-11 and pages 13-31)

Case 2 [Proposed by the Board of Directors]

Case: Adoption of 2017 Earnings Distribution Proposal.

Explanation:

- I. The Company's net profits after tax in 2017 amounted to NT\$130,263,490. The Company has appropriated 10%, totaling NT\$13,026,349, as statutory surplus reserve. The Company also deducted other comprehensive income of NT\$799,657 from 2017 and appropriated special surplus reserve of NT\$16,034,697. The total earnings available for distribution in the current period is NT\$100,402,787. Based on the actual amount of 79,712,847 outstanding shares as of March 20, 2018, NT\$100,402,787 shall be distributed as cash dividends at NT\$1.25955590 per share.
- II. After the distribution of shareholder dividends is approved by the general shareholders' meeting, the shareholders' meeting is requested to authorize the Board of Directors to process related matters regarding the ex-dividend date and the distribution of cash dividends.
- III. If there is change in the Company's number of outstanding shares on the ex-dividend record date, the Chairman of the Board is authorized to adjust the cash dividend payout in accordance with the number of outstanding shares as of the ex-dividend date.
- IV. For this period's motion to distribute cash dividends, the dividend will be calculated to the amount of one whole NT dollar, and the remaining amounts below NT\$1 will be rounded down. Shares below NT\$1 will be adjusted from the largest decimal place and the number of accounts in descending order until the total amount of cash dividends has been distributed. Please refer to Attachment 5. (Page 32)

## **Matters for Discussion**

Case 1 [Proposed by the Board of Directors]

Case: The proposal for the issuance of new shares to employees with restricted rights is hereby submitted for approval.

Explanation:

- I. To reward outstanding employees and retain important talented individuals, the Company shall issue new restricted employee shares in accordance with Paragraph 8 and Paragraph 9, Article 267 of the Company Act and the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers" published by Financial Supervisory Commission.
- II. This issuance of new restricted employee shares shall be processed in one or multiple applications within one year of the resolution in the shareholders' meeting and they shall be issued within one year of the arrival of the approval notice from competent authority. The Company may decide to issue the share options all at once or in multiple installments. The actual issuance date shall be determined by the Chairman as authorized by the Board of Directors.
- III. The proposal for the issuance of new shares to employees with restricted rights contains the following:
  1. Total issuance amount: Restricted to 750 thousand shares.
  2. Issuance conditions:
    - (1) Issuance price: Bonus distribution or issued at NT\$10 per share. The Board is authorized to set the actual issuance price based on the authorization granted at the shareholder's meeting.
    - (2) Vesting conditions: Employees shall be required to reach their performance targets and contribution level established by the Company while being employed by the Company three full years after the capital increase baseline date to meet the qualifications specified in the Regulations on the Issuance of New Shares to Employees with Restricted Rights. Percentage of vested shares: 100%.
    - (3) Type of issued shares: The Company's common shares.
    - (4) Method for processing employees' failure to meet vesting conditions or for cases involving inheritance: Where employees fail to meet vesting conditions for the distribution of new shares to employees with restricted rights, all such shares shall be recovered or repurchased by the Company

and canceled.

3. Qualifications for employees and the number of distributed shares:
  - (1) Employee qualifications: Employees must remain the Company's full-time employee with good performance as of the issuance date. The actual recipients and quantities shall be determined by seniority, level, performance, overall contribution, and other factors and the Company's operations requirements and business development strategies shall also be considered. The distribution shall be processed in accordance with regulations and the Regulations on the Issuance of New Shares to Employees with Restricted Rights established by the Company.
  - (2) Distributable shares: The number of new restricted employee shares available for subscription for each employee in each fiscal year shall be included in the sum of employee stock options specified in Paragraph 1, Article 56-1 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and it shall not exceed three thousandths of the Company's total outstanding shares as of the end of the fiscal year. Moreover, according to Paragraph 1, Article 56 of the Regulations, it shall also include the number of employee share options granted by the Company to any single subscriber in each fiscal year which may not exceed one percent of the total number of outstanding shares at the end of the year.
4. Necessity of the issuance of new restricted employee shares: The Company aims to attract and retain professional talents needed by the Company and to increase employees' coherence and sense of belonging in the Company in order to jointly create value for the Company and shareholders.
5. The amounts that may be listed as expenses and the dilution impact they may have on the Company's earnings per share:
  - (1) The amounts that may be listed as expenses: The calculation is based on the company stock's average closing price of NT\$63.2 per share in the 30 business days prior to March 19, 2018 (inclusive). Calculations based on NT\$10 per share: Prior to the completion of all vesting conditions, the maximum expenses is NT\$39,900 thousand; the estimated expenses amortized from 2018, 2019, 2020, and 2021 are NT\$ (same hereunder) 6,705 thousand, NT\$13,300 thousand, NT\$13,300 thousand, and NT\$6,595 thousand. Calculations based on bonus distribution: Prior to the

completion of all vesting conditions, the maximum expenses is NT\$47,400 thousand; the estimated expenses amortized from 2018, 2019, 2020, and 2021 are NT\$ (same hereunder) 7,965 thousand, NT\$15,800 thousand, NT\$15,800 thousand, and NT\$7,835 thousand.

- (2) Dilution of the Company's EPS: The current number of shares outstanding is 79,712,847 shares. The estimated new restricted employee shares to be distributed account for 0.95% of current total shares outstanding. Calculations based on the vesting period and the number of current outstanding shares reveal. If the shares are distributed at NT\$10 per share, the effect on the Company's EPS in expenses for 2018 to 2021 based on the Company's current shares outstanding is approximately NT\$0.08, NT\$0.17, NT\$0.17, and NT\$0.08; if the shares are distributed as bonuses, the effect on the Company's EPS in expenses for 2018 to 2021 based on the Company's current shares outstanding is approximately NT\$0.10, NT\$0.20, NT\$0.20, and NT\$0.10.
6. Other impact the on shareholders' equity: The dilution on the Company's EPS in future years is limited and there should be no material impact on the current shareholder equity for the existing shareholders.
7. Restricted rights of employees before reaching vesting conditions after the distribution or subscription of the employees:
  - (1) After receiving new restricted employee shares and before meeting vesting conditions, employees may not sell, pledge, transfer, gift, use as collateral, or dispose the restricted employee shares in any means.
  - (2) The right to participate, propose, speak, and vote in shareholders' meeting are all delegated and executed by trust custody institutions in accordance with the contract.
  - (3) With the exception of the aforementioned restrictions of the trust agreement, employees who are awarded new restricted employee shares may participate in the stock and cash dividend distribution and the subscription of shares for cash capital increase.
  - (4) 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.
  - (5) Where employees fail to meet vesting conditions for the distribution of

new shares to employees with restricted rights, issued shares shall be recovered without payment or repurchased by the Company and canceled.

8. Other important stipulations: 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 employee restricted shares for any reason or in any manner.
9. Other matters that require explanation:
  - (1) If the conditions established for the issuance of new restricted employee shares require amendments or corrections based on instructions of the competent authority, amendment of related regulations, or in response to changes in the financial market or objective environmental conditions, the shareholders meeting will also be requested to authorize the Board of Directors to make modification or correction at its full discretion.
  - (2) Any matters that are not addressed herein shall be governed by the relevant regulations.

Case 2 [Proposed by the Board of Directors]

Case: The proposal to authorize the Board of Directors to release stocks of the subsidiary company A-SPINE Asia Co., Ltd. or relinquish the subscription of shares in the cash capital increase is hereby submitted for approval.

Description: For the purpose of allowing the subsidiary company A-SPINE Asia Co., Ltd. (hereinafter referred to as A-SPINE Asia) to meet requirements for listing on the OTC, the shareholders' meeting is requested to pass the proposal to authorize the Board of Directors to release stocks of the subsidiary company A-SPINE Asia Co., Ltd. or relinquish the subscription of shares in the cash capital increase.

- I. The Board of Directors of the subsidiary A-SPINE Asia has resolved to apply to the Taipei Exchange at a suitable time for the registration of the public issuance of stocks, registration on the Emerging Stock Market, and application for listing on the OTC for the overall purpose of recruiting and retaining outstanding employees, optimizing company competitiveness, and promoting sustainable development.
- II. Pursuant to A-SPINE Asia's requirements for future OTC listing application and based on the requirement "The total number of shares of the applicant company held by the parent company and all of its subsidiaries, and by those companies' directors, supervisors, representatives, and by shareholders holding more than ten

percent of the total issued shares of the Company, and by related party(ies) thereof, shall not in total exceed 70 percent of its total issued shares" specified in the "Taipei Exchange Supplemental Rules Governing Applications by Group Enterprises for TPEX Listing of Stock", the following three methods are proposed to make A-SPINE Asia meet related requirements for listing on the OTC:

1. The Company sells its shares in A-SPINE Asia (hereinafter referred to as stock release)
  - (1) Quantity: The total number shall not exceed 3,000,000 shares and the Company may release the shares in separate releases.
  - (2) Targets: All shareholders of the Company, employees of the Company and affiliate companies, strategic investors, upstream suppliers or downstream customers, or other specific individuals shall be prioritized in the stock release.
  - (3) Price: The price should not be lower than the net asset value of each share based on A-SPINE Asia's latest financial statements and self-certified statements and the average cost of each share of A-SPINE Asia held by the Company. However, the actual price shall be determined after the Board of Directors is authorized in the shareholders meeting based on market conditions and profitability. In addition, an independent expert shall be appointed to submit an evaluation of the rationale of the offering price.
2. A-SPINE Asia implements cash capital increase for future operations and it appropriates 10%-15% for subscription by A-SPINE Asia employees in accordance with laws. The Company shall relinquish all or part of subscription rights in the cash capital increase and transfer the subscription rights to all shareholders of the Company, employees of the Company and affiliate companies, strategic investors, upstream suppliers or downstream customers, or other specific individuals.
3. To release shares to accommodate A-SPINE Asia's listing on the OTC in the future, the Company shall appropriate shares for subscription or over-allotment by recommended securities firms on the emerging stock market in accordance with related laws and regulations. The number of appropriated shares and price shall be pursuant to related regulations, contemporary market conditions, and A-SPINE Asia's profitability status and determined in negotiations with the underwriter. It shall be processed in accordance with

the Company's "Asset Acquisition or Disposal Procedures" and related regulations.

- III. The shareholders' meeting is requested to authorize the Board of Directors to process the A-SPINE Asia's stock release proposal and relinquishing of part or all subscription rights in the cash capital increase of A-SPINE Asia specified above within one year of the resolution in the shareholders' meeting.

## **Other Proposals and Extempore Motions**

### **Adjournment**

## [Attachment 1]

### Business Report

#### (I). Business Strategy:

A. Improve the comprehensiveness of the product line: With regard to artificial orthopedic joints, United Orthopedic Corporation already has an impressive product line in place. The overall product comprehensiveness is approximately seventy to eighty percent of that of major international companies. The Company is required to work hard to increase the product coverage over the next one or two years. The target is to provide more than ninety percent of coverage in product line comprehensiveness of major international companies by the end of next year and effectively increase the Company's overall competitiveness.

B. Actively build international brand awareness: Taiwanese industries have relied excessively on manufacturing but failed to pay attention to brand management and resources investment and failing to accumulate and exemplify brand value. Over the past 25 years, United Orthopedic Corporation has established a level of manufacturing expertise that rival major European and American brands. We have also accumulated more than 300,000 valid results from clinic trials and the Company shall invest resources to strengthen the value of the brand. Since last year, the Company has worked with professional consultants to build an international brand image for brand management. In terms of professional academic clinical research, the Company has also worked with renowned domestic and foreign doctors and consultants in clinical research, cooperation, and assignments to completely advance the Company's overall international brand image to the next level.

C. Continuous development of domestic and foreign sales channels: The output of the global artificial joint industry is approximately US\$16.5 billion and United Orthopedic Corporation currently only accounts for approximately 0.3% of the market share. The Company also makes use of existing domestic and foreign distributors or direct sales channels to improve market penetration and development. At the same time, the Company will also speed up application procedures for compliance with international regulations to quickly enter new markets. Our goal this year is to complete application procedures for products to enter Japan, the

benchmark market in Asia, as we begin official sales in the Japanese market.

(II). Business Plan Implementation Results:

The Company's net operating revenue in 2017 amounted to NT\$1,581,054 thousand, which was a 16.9% increase from the NT\$1,352,145 thousand in 2016. The net consolidated operating revenue in 2017 was NT\$1,972,592 thousand, which was a 42.6% increase from the NT\$1,383,340 thousand in 2016. The increase was mainly due to the inclusion of the revenue of the subsidiary A-SPINE Asia and the European subsidiary starting in the second quarter of 2017. With regard to profitability, the net profit after tax in 2017 was NT\$110,939 thousand, which was a reduction of NT\$29,910 thousand from the net profit after tax of NT\$140,849 thousand in 2016. This was mainly caused by related operating expenses for new foreign operations.

1. Analysis of individual operating income/expenses and profitability

Unit: NT\$1,000

Item		Year	
		2017	2016
Income and expenditure	Net revenue	1,581,054	1,352,145
	Gross profit	840,992	761,299
	Net operating profit	190,185	176,661
	After-tax profit or loss	130,264	146,601
Profitability	Return on assets (%)	4.20%	5.81%
	Return on shareholder's equity (%)	6.54%	8.26%
	Ratio of operating income to paid-in capital (%)	23.85%	24.62%
	Ratio of pre-tax net profit to paid-in capital (%)	7.88%	9.21%
	Net income ratio (%)	8.23%	10.84%
	Basic earnings per share after tax (NT\$)	1.78	2.06

2. Analysis of consolidated operating income/expenses and profitability

Unit: NT\$1,000

Item		Year	
		2017	2016
Income and expenditure	Net revenue	1,972,592	1,383,340
	Gross profit	1,429,624	947,652
	Net operating profit	161,936	159,686
	After-tax profit or loss	110,939	140,849
Profitability	Return on assets (%)	3.36%	5.24%
	Return on shareholder's equity (%)	5.52%	7.88%
	Ratio of operating income to paid-in capital (%)	20.31%	22.25%
	Ratio of pre-tax net profit to paid-in capital (%)	7.46%	8.81%

(Merge)		
Net income ratio (%)	5.62%	10.18%
Basic earnings per share after tax (NT\$)	1.78	2.06

(III). Research and development status:

The Group's 2017 R&D expenses were NT\$198,734 thousand which was a NT\$37,503 thousand increase from 2016 and a year-on-year growth rate of 23.3%. It accounted for 10.1% of total revenue of 2017 and approximately one tenth of the revenue.

Person in Charge: Lin, Yan-Shen General Manager: Lin, Yan-Shen Accounting Manager: Teng, Yuan-Chang

**[Attachment 2]**

United Orthopedic Corporation

Supervisor's Review Report

The Company's 2017 Business Report, Financial Statements, Consolidated Financial Statements, and Earnings Distribution Plan prepared by the Board of Directors were reviewed and considered to be correct and accurate by the Supervisors. We hereby submit this report in accordance with Article 219 of the Company Act.

Respectfully submitted to

2018 Shareholders' Meeting

United Orthopedic Corporation

Supervisor: Wang, Ching-Hsiang

Wong, Chi-Yin

Chen, Li-Ju

March 21, 2018

### **[Attachment 3]**

## Independent Auditor's Report

To United Orthopedic Corporation:

### **Audit opinion**

We have audited the individual balance sheets of United Orthopedic Corporation as of December 31, 2016 and 2017 and the individual income statements, individual statements of changes in equity, individual cash flow statements and individual financial statements annotations (including major accounting policy summary) for January 1 to December 31, 2017 and 2016.

In our opinion, the aforementioned individual financial statements have been prepared in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” in all major aspects, which shall suffice to express the financial status of the United Orthopedic Corporation as of December 31, 2016 and 2017, and the financial performance and cash flow as of December 31, 2016 and 2017.

### **Basis for the Audit**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our CPAs 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 shall comply with the ethical code of conduct for accountants and remain neutral 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 2017 individual financial statement of United Orthopedic Corporation being audited by the CPAs 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 CPAs will not offer any separate opinion on them.

### Inventory valuation

United Orthopedic Corporation's net inventories as of December 31, 2017, was NT\$611,852 thousand, accounting for 16% of individual assets, which is significant to the individual financial statement. Hence, the CPAs have determined the inventory valuation as a key audit item. The audit procedure conducted by the CPAs included but not limited to following audit procedures: learn and test the management with respect to the effectiveness of internal control established for inventory price drop and idle loss. We have visited the company's warehouse to assess the inventory condition 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. The CPAs have also considered the appropriateness of inventory disclosure identified in Note 5 and Note 6 of the individual financial statement.

### Revenue recognition

United Orthopedic Corporation's primary products are orthopedic implants - artificial hip joints, artificial knee joints, trauma-treatment products and OEM products, and their recognized revenue in 2017 was NT\$1,581,054 thousand, which is significant to the individual financial statement. Hence, the CPAs have determined the revenue recognition as a key audit item. The audit procedure conducted by the accountants included but not limited to following audit procedures: Examine and assess the appropriateness of the accounting policy on the revenue recognition. We have discussed with the management and tested the effectiveness of internal control established 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. The CPAs have also considered the appropriateness of revenue disclosure shown in Note 6 of the individual financial statement.

### **The responsibility of the management and governance units for the parent company only financial statements**

To ensure that the Individual Financial Statements do not contain material misstatements caused by fraud or errors, the management level is responsible for preparing prudent Individual Financial Statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities

Issuers" and to prepare and maintain necessary internal control procedures pertaining to the Individual Financial Statements.

In preparing the Individual Financial Statements, the responsibility of management includes the assessment of the sustainability of United Orthopedic Corporation, disclosure of related matters, and the adoption of a consistent accounting basis, unless the management intends to liquidate United Orthopedic Corporation, terminate the business, or no practicable measures other than liquidation or termination of the business can be taken.

The governing units (including audit committee or supervisor) of United Orthopedic Corporation shall be 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. False expressions may be due to fraud or obvious 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: The CPAs have 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 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 risk of failing to detect significant false contents resulting from fraudulence is higher than the risk of failing to identify those coming from errors.
2. Obtained necessary knowledge 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 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 CPAs 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 operations or whether any significant uncertainty existed. If the CPAs consider that material uncertainty exists in these matters or conditions, the CPAs are required 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. However, future events or situations may lead to the cessation of operations of the United Orthopedic Corporation.
5. Evaluated 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. Obtained 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 CPAs are 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 CPAs 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. This is carefully done, unless legal regulations prohibit the public disclosure of specific items, 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

CPA:

Huang, Chien-Che

March 20, 2018

United Orthopedic Corporation  
Stand-Alone Balance Sheet  
December 31, 2017 and December 31, 2016

Unit: NTD thousand

Assets		December 31, 2017		December 31, 2016		
Code	Accounting item	Note	Amount	%	Amount	%
	<b>Current assets</b>					
1100	Cash and cash equivalents	4 & 6.1	\$266,901	7	\$334,908	12
1150	Net notes receivable	4 & 6.5	2,912	-	3,252	-
1170	Net accounts receivable	4 & 6.6	190,058	5	165,793	6
1180	Accounts receivable - related parties (net)	4, 6.6 and 7	410,896	11	243,835	9
1200	Other accounts receivable	8	13,224	-	8,269	-
1210	Other accounts receivable - related parties (net)	7	309	-	24,213	1
130x	Inventory	4 & 6.7	611,852	16	474,214	17
1410	Prepayment		24,186	1	22,332	1
1470	Other current assets		238	-	331	-
11xx	<b>Total current assets</b>		<b>1,520,576</b>	<b>40</b>	<b>1,277,147</b>	<b>46</b>
	<b>Non-current Assets</b>					
1510	Financial Assets at Fair Value through Profit or Loss - Non-current	4, 6.2 and 6.13	80	-	-	-
1543	Financial assets carried at cost - non-current	4 & 6.3	2,850	-	2,850	-
1546	Investment in debt instrument in non-active market - non-current	4 & 6.4 and 8	6,705	-	6,320	-
1550	Investment that adopts equity method	4 & 6.8	1,151,189	30	613,615	22
1600	Property, plant and equipment	4, 6.9 & 8	1,008,602	27	815,043	29
1780	Intangible assets	4 & 6.10	37,583	1	32,613	1
1840	Deferred income tax assets	4 & 6.23	58,561	2	51,483	2
1900	Other non-current assets		19,699	-	10,347	-
15xx	<b>Total Non-current assets</b>		<b>2,285,269</b>	<b>60</b>	<b>1,532,271</b>	<b>54</b>
1xxx	<b>Total assets</b>		<b>\$3,805,845</b>	<b>100</b>	<b>\$2,809,418</b>	<b>100</b>

(Please refer to the notes of the individual financial statements)

Chairman: Lin, Yan-Shen Manager: Lin, Yan-Shen

Accounting Supervisor: Deng, Yuan-Chang

United Orthopedic Corporation  
Stand-Alone Balance Sheet (continued)  
December 31, 2017 and December 31, 2016

Unit: NTD thousand

Code	Liabilities and Equities		December 31, 2017		December 31, 2016	
	Accounting item	Note	Amount	%	Amount	%
	Current liabilities					
2100	Short-term loan	4 & 6.11	\$500,000	13	\$315,000	11
2110	Short-term bills payable	4 & 6.12	-	-	50,000	2
2150	Notes payable		2,302	-	2,100	-
2170	Accounts payable		77,222	2	40,364	1
2180	Accounts payable - related parties	4 & 7	17,047	-	13,568	-
2200	Other accounts payable		258,535	7	221,613	8
2220	Other payables - related parties	7	653	-	-	-
2230	Current income tax liabilities	4 & 6.23	30,448	1	42,020	1
2300	Other current liabilities		5,015	-	4,677	-
2322	Long-term loan due in one year	4 & 6.14	57,864	2	37,105	1
21xx	Total current liabilities		949,086	25	726,447	24
	Non-current liabilities					
2530	Bonds payable	613	385,713	10	-	-
2540	Long-term loans	4 & 6.14	135,885	4	155,977	6
2570	Deferred income tax liabilities	4 & 6.23	7	-	-	-
2600	Other non-current liabilities		154	-	154	-
2630	Long-term deferred income	4 & 6.8	105,265	3	130,739	5
2640	Net defined benefit liability - non-current	4 & 6.15	16,856	-	22,483	1
2650	Credit balance of investments under equity method	4 & 6.8	7,964	-	456	-
25xx	Total non-current liabilities		651,844	17	309,809	12
2xxx	Total Liabilities		1,600,930	42	1,036,256	36
	Equity					
		4 & 6.16				
3100	Capital					
3110	Capital - common stock		797,129	21	717,469	26
	Total capital		797,129	21	717,469	26
3200	Capital reserve		1,243,611	33	915,406	33
3300	Retained earnings					
3310	Statutory surplus reserve		55,906	1	41,246	2
3320	Special surplus reserve		31,620	1	-	-
3350	Undistributed earnings		129,464	3	145,834	5
	Total retained earnings		216,990	5	187,080	7
3400	Other equity					
3410	Difference on translation of financial statements of foreign operations		(47,655)	(1)	(31,620)	(1)
3491	Employee's unearned remuneration	4 & 6.17	(5,160)	-	(15,173)	(1)
	Total other equity		(52,815)	(1)	(46,793)	(2)
3xxx	Total Equity		2,204,915	58	1,773,162	64
	Total liabilities and equities		\$3,805,845	100	\$2,809,418	100

(Please refer to the notes of the individual financial statements)

Chairman: Lin, Yan-Shen Manager: Lin, Yan-Shen

Accounting Supervisor: Deng, Yuan-Chang

37						
United Orthopedic Corporation						
Individual Income Statement						
For the periods of January 1 to December 31 of 2017 and 2016						
						Unit: NTD thousand
Code		Notes	2017		2016	
			Amount	%	Amount	%
4000	Operating Revenue	4 & 6.18	\$1,581,054	100	\$1,352,145	100
5000	Operating costs	4 & 6.7	668,501	42	582,789	43
5900	Gross profit		912,553	58	769,356	57
5910	Realized (Unrealized) profits from sales		(71,561)	(5)	(8,057)	(1)
5900	Gross profit		840,992	53	761,299	56
6000	Operating expenses					
6100	Marketing Expense		329,463	21	300,194	22
6200	Administrative Expense		136,418	9	123,213	9
6300	R&D Expenses		184,926	12	161,231	12
	Total operating expenses		650,807	42	584,638	43
6900	Operating Profit		190,185	11	176,661	13
7000	Non-operating income and expenses	4 & 6.21				
7010	Other income		33,263	2	30,410	2
7020	Other profit and loss		(9,745)	(1)	(17,453)	(1)
7050	Financial cost		(10,758)	(1)	(4,568)	-
7070	Recognized share of the loss of the affiliated enterprises and joint ventures using equity method		(29,076)	(2)	(21,632)	(2)
	Total non-operating income and expenses		(16,316)	(2)	(13,243)	(1)
7900	Net income before tax		173,869	9	163,418	12
7950	Income tax expenses	4 & 6.23	(43,605)	(3)	(16,817)	(1)
8200	Current period net profit		130,264	6	146,601	11
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		(800)	-	(767)	-
8349	And income taxes relating to profit/loss items not to be reclassified		-	-	-	-
8360	Items that may be reclassified to profit or loss					
8361	Exchange differences on translation of financial statements of foreign operations		(16,035)	(1)	(42,722)	(3)
8365	Equity directly relating to non-current assets held for sale		-	-	(4,616)	-
8399	Income tax relating to items that may be reassigned to profits and losses		-	-	4,320	-
	comprehensive income or loss (net value after tax) in this period		(16,835)	(1)	(43,785)	(3)
8500	Total amount of comprehensive profit/loss in the period		\$113,429	5	\$102,816	8
	Earnings per share (NT\$)	4 & 6.24				
9750	Basic earnings per share		\$1.78		\$2.06	
9850	Diluted earnings per share		\$1.75		\$2.05	
	(Please refer to the notes of the individual financial statements)					
Chairman: Lin Yan-Shen Manager: Lin Yan-Shen Accounting Manager: Deng Yuan-Chang						

United Orthopedic Corporation

Individual Statement of Changes in Equity

For the periods of January 1 to December 31 of 2017 and 2016

Unit: NTD thousand

Code	Item	Retained earnings						Other Equity			Total equity
		Capital 3100	Bonds exchanging for stockrights certificate 3130	Capital reserve 3200	Statutory surplus reserve 3310	Special surplus reserve 3320	Undistributed Earnings 3350	Exchange differences on translation of financial statements of foreign operations 3410	For saleNon- current Assets Directly related equity 3470	Employees unearned remuneration 3491	
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
B1	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 (Note1)	-	-	-	-	-	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 from 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
A1	Balances on January 1, 2017	\$717,469	\$-	\$915,406	\$41,246	\$-	\$145,834	\$(31,620)	\$-	\$(15,173)	\$1,773,162
B1	Appropriation and distribution of 2016 earnings	-	-	-	-	-	-	-	-	-	-
B1	Appropriate statutory surplus reserve	-	-	-	14,660	-	(14,660)	-	-	-	-
B3	Appropriate statutory surplus reserve	-	-	-	-	31,620	(31,620)	-	-	-	-
B5	Cash dividend of common stock	-	-	-	-	-	(99,554)	-	-	-	(99,554)
C5	Composition of equity recognized due to convertible bond issuance generated from warrants	-	-	16,600	-	-	-	-	-	-	16,600
D1	2017 Net Profit (Note 2)	-	-	-	-	-	130,264	-	-	-	130,264
D3	Other comprehensive profit/loss in 2017	-	-	-	-	-	(800)	(16,035)	-	-	(16,835)
D5	Total amount of comprehensive profit/loss in the period	-	-	-	-	-	129,464	(16,035)	-	-	113,429
E1	Capital Increase	80,000	-	304,000	-	-	-	-	-	-	384,000
M7	Changes in equity of ownership of subsidiaries	-	-	(4,539)	-	-	-	-	-	-	(4,539)
N1	Share-based payment transaction - employee stock option	-	-	13,555	-	-	-	-	-	-	13,555
N2	Share-based payment transaction - restricted employee entitlement to new shares	(340)	-	(1,411)	-	-	-	-	-	10,013	8,262
Z1	Balance on December 31, 2017	\$797,129	\$-	\$1,243,611	\$55,906	\$31,620	\$129,464	\$(47,655)	\$-	\$(5,160)	\$2,204,915

(Please refer to the notes of the individual financial statements)

(Note 1) The Directors and Supervisors' remuneration of 5,695 thousand and employees' remuneration of 23,061 thousand have been removed from the consolidated income statement.

(Note 2) The Directors and Supervisors' remuneration of 6,553 thousand and employees' remuneration of 26,212 thousand have been removed from the consolidated income statement.

Chairman: Lin Yan-Sheng

Manager: Lin Yan-Sheng

Accounting Supervisor: Deng Yuan-Chang

United Orthopedic Corporation  
Stand-Alone Statement of Cash Flow  
For the periods of January 1 to December 31 of 2017 and 2016

		Unit: NTD thousand	
Code	Item	2017 Amount	2016 Amount
AAAA	Cash flow from operating activities:		
A10000	Current net profit before tax	\$173,869	\$163,418
A20000	Adjustment items:		
A20010	Income/expense items that do not affect cash flow:		
A20100	Depreciation expense	84,000	76,126
A20200	Amortization expense	8,247	5,837
A20300	Bad debts recorded	1,580	6,839
A20400	Net benefit of the financial liabilities at fair value through profit and loss	(40)	-
A20900	Interest Expense	10,758	4,568
A21200	Interest Income	(1,960)	(3,863)
A21900	Share-based payment remuneration cost	21,817	9,682
A22300	Recognized shares of loss of subsidiaries, associates and joint ventures accounted for using the equity method	29,076	21,632
A22500	Loss on disposal of property, plant and equipment	458	301
A24000	Gain on realized sales	71,561	8,057
A29900	Other income	(25,474)	(19,105)
A30000	Changes in assets and liabilities related to operating activities		
A31130	Reduced (increased) notes receivable	340	(2,594)
A31150	Increases in accounts receivable	(25,845)	(37,947)
A31160	Decrease (increase ) in Accounts Receivable - Related Parties	(167,061)	19,210
A31180	Increases in other payables	(4,658)	(4,306)
A31190	Decrease (increase) in other receivables - related parties	23,904	(24,208)
A31200	Increases in inventories	(137,638)	(13,742)
A31220	Decreases (increases) in prepayment	(1,854)	6,445
A31240	Decreases in other current assets	93	277
A32130	Increase (decrease) in notes payable	202	(1,640)
A32150	Increase (decrease) in accounts payable	36,858	(15,895)
A32160	Increase (decrease) in accounts payables - related parties	3,479	(35,176)
A32180	Increases in other payables	36,933	27,274
A32190	Increase in other payables - related party	653	-
A32230	Increase in other non-current liabilities	338	1,530
A32240	Decreases in net defined benefit liability	(6,427)	(5,689)
A33000	Cash inflow generated by operation	133,209	187,031
A33100	Interest income received	1,663	3,711
A33200	Dividend received	40,896	-
A33500	Income Tax Paid	(62,248)	(31,707)
AAAA	Net cash inflow from operating activities	113,520	159,035
BBBB	Cash flow from investment activities		
B00600	Investment in debt instrument in inactive market	(385)	(235)
B01800	Acquisition of the investment using equity method	(692,173)	(412,079)
B02700	Acquisition of property, plant and equipment	(278,032)	(279,782)
B02800	Disposal of property, plant, and equipment	15	11
B03700	Increases in refundable deposits	(1,493)	(1,052)
B04500	Intangible assets acquired	(13,217)	(23,316)
B06800	Decreases (increases) in other non-current assets	(7,859)	336
BBBB	Net cash outflow from investing activities	(993,144)	(716,117)
CCCC	Cash from financing activities		
C00100	Increases in short-term loans	185,000	291,398
C00500	Increases in short-term bills payable	-	50,000
C00600	Decrease in short-term bills payables	(50,000)	-
C01200	corporate bonds issuance	400,000	-
C01600	Long-term loans borrowed	667	7,478
C04500	Cash dividend payout	(99,554)	(114,803)
C04600	Capital Increase	384,000	-
C05600	Interest Paid	(8,496)	(4,497)
CCCC	Net cash inflow from financing activities	811,617	229,576
EEEE	Decrease in current cash and cash equivalents	(68,007)	(327,506)
E00100	Balance of Cash and Cash Equivalents, Beginning of Year	334,908	662,414
E00200	Balance of Cash and Cash Equivalents, End of Year	\$266,901	\$334,908

(Please refer to the notes of the individual financial statements)

To United Orthopedic Corporation:

### **Audit opinion**

We have audited the consolidated balance sheets of United Orthopedic Corporation and its subsidiaries as of December 31, 2017 and December 31, 2016 and the related consolidated income statements, consolidated statements of changes in equity, consolidated cash flow statements and consolidated financial statements annotations (including major accounting policy summary) for the years ended December 31, 2017 and 2016.

In our opinion, the consolidated financial statements referred to above present fairly, in all material aspects, the consolidated financial position of United Orthopedic Corporation and its subsidiaries as of December 31, 2017 and December 31, 2016, and the consolidated results of their operations and their cash flows for the years ended December 31, 2017 and 2016, in conformity with the requirement of the Regulations of Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

### **Basis for the Audit**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our CPA will further explain the responsibilities of auditors during the audit of consolidated financial statements on the principles below. The independent accountants of Ernst & Young shall comply with the ethical code of conduct for accountants and remain neutral 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 2017 consolidated financial statement of United Orthopedic Corporation and its subsidiaries being audited by the accountants when performing their professional judgment. These items have been covered in the verification process of the overall consolidated financial statements and the audit opinions; hence, the CPA shall not express separate opinions on these items.

### Inventory valuation

United Orthopedic Corporation and its subsidiaries' net inventories as of December 31, 2017, was NT\$ 906,019 thousand, accounting for 21% of consolidated assets, which is significant to the consolidated financial statement. Hence, the CPAs have determined the inventory valuation as a key audit item. The audit procedure conducted by the CPAs included but not limited to following audit procedures: learn and test the management with respect to the effectiveness of internal control established for inventory price drop and idle loss. We have visited the company's warehouse to assess the inventory condition 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. The CPAs have also considered the appropriateness of inventory disclosure identified in Note 5 and Note 6 of the consolidated financial statement.

### Revenue recognition

United Orthopedic Corporation and its subsidiaries' primary products are orthopedic implants - artificial hip joints, artificial knee joints, trauma-treatment products and OEM products, and their recognized revenue in 2017 was NT\$1,972,592 thousand, which is significant to the consolidated financial statement. Hence, the CPAs have determined the revenue recognition as a key audit item. The audit procedure conducted by the accountants included but not limited to following audit procedures: Examine and assess the appropriateness of the accounting policy on the revenue recognition. We have discussed with the management and tested the effectiveness of internal control established 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. The CPAs have also considered the appropriateness of revenue disclosure shown in Note 6 of the consolidated financial statement.

### Assessment of Impairment of Goodwill

United Orthopedic Corporation and its subsidiaries' goodwill as of December 31, 2017, was NT\$ 292,891 thousand, accounting for 7% of consolidated assets, which is significant to the consolidated financial statement. The goodwill was generated by United Orthopedic Corporation and its subsidiaries' acquisition of A-SPINE Asia Co., Ltd. for the development of domestic and foreign orthopedic spine replacement market. The management is required to conduct an impairment test on goodwill obtained through the acquisition of companies each year in accordance with regulations. The goodwill impairment test involves the major judgment of the management and assumptions on the recoverable amount is highly uncertain. Hence, the CPAs have determined the goodwill impairment test as a key audit item. The audit procedure

conducted by the accountants included but not limited to following audit procedures: Understand the appropriateness of the management's basis of identifying and evaluating cash-generating units. The CPA has examined the process and the basis on which the management has made its projections of the growth rate in sales and profit margin of the merged company in future operations. 3. The CPA has adopted the evaluation models and important assumptions (including discount rate etc.). The CPA has also used the data in assumptions made by the management to compare with market and historical data and checked the calculation to ensure the appropriateness of the management's judgment. The CPAs have also considered the appropriateness of the disclosure of goodwill and the impairment test on intangible assets with indefinite useful life in Note 5 and 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 prudent individual financial statements in accordance with the regulations on the preparation of financial reports by securities issuers and in accordance with IFRS, IAS as recognized and announced by the FSC to be effective, in line with proper explanations, and to prepare and maintain necessary internal control procedures for the consolidated financial statements.

In preparing the Consolidated Financial Statements, the responsibility of management includes the assessment of the sustainability of United Orthopedic Corporation, and its subsidiaries, disclosure of related matters, and the adoption of a consistent accounting basis, unless the management intends to liquidate United Orthopedic Corporation, and its subsidiaries, terminate the business, or no practicable measures other than liquidation or termination of the business can be taken.

The governing units (including audit committee or supervisor) of United Orthopedic Corporation and its subsidiaries shall be responsible for supervising the financial reporting procedures.

## **Responsibilities of the CPA for auditing the consolidated financial statements**

The purpose of the CPA's audit on the Consolidated Financial Statements is to obtain reasonable certainty for whether the Statements contain material misstatement due to fraud or error, and to provide an auditing report. "Reasonable certainty" 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. False expressions may be due to fraud or obvious errors. If it could be reasonably anticipated that the misstated individual amounts or aggregated sums could have influence on the economic decisions made by the users 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: The CPAs have 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 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 risk of failing to detect significant false contents resulting from fraudulence is higher than the risk of failing to identify those coming from errors.
2. Obtained necessary knowledge 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 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 audit evidence established, concluding on the appropriateness for the management to continue to adopt the same accounting basis and whether there was any significant doubt about the capacity of United Orthopedic Corporation and its subsidiaries to remain in operation or whether any significant uncertainty existed. If the CPA considers that material uncertainty exists in these matters or conditions, the CPA shall remind the users of the consolidated financial statements to pay attention to relevant disclosure in the statements in their audit report, or to revise the audit opinions when such disclosure is inappropriate. Our conclusion is based on the proof available for audit as of the date of the audit report. However, future events or situations may lead to the cessation of operations of the United Orthopedic Corporation and its subsidiaries.
5. Evaluated 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. Obtained 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 CPAs are 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 us and the company's governing body, we have determined the key audit items from 2017 consolidated financial statements of United Orthopedic Corporation and its subsidiaries. Such matters have been explicitly highlighted in the audit report. This is carefully done, unless legal regulations prohibit the public disclosure of specific items, 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

CPA:

Huang, Chien-Che

March 20, 2018

United Orthopedic Corporation and its subsidiaries

Consolidated balance sheets

December 31, 2017 and December 31, 2016

Unit: NTD thousand

Assets????		December 31, 2017		December 31, 2016		
Code	Accounting item	Note	Amount	%	Amount	%
	Current assets					
1100	Cash and cash equivalents	4 & 6.1?	\$401,387	9	\$477,926	17
1150	Net notes receivable	4 & 6.5?	16,754	-	3,252	-
1170	Net accounts receivable	4, 6.6 and 8??	367,437	9	223,814	8
1180	Accounts receivable - related parties (net)	4, 6.6 and 7??	106,001	3	68,640	2
1200	Other accounts receivable		15,484	-	8,994	-
1210	Other accounts receivable - related parties	7	106,059	2	107,274	4
1220	Current income tax assets	4	-	-	-	-
130x	Inventory	4 & 6.7?	906,019	21	573,626	19
1410	Prepayment		63,644	2	37,159	1
1470	Other current assets		8,236	-	3,240	-
11xx	Total current assets		1,991,021	46	1,503,925	51
	Non-current Assets					
1510	Financial Assets at Fair Value through Profit or Loss - Non-current?	4, 6.2 and 6.14???	80	-	-	-
1543	Financial assets carried at cost - non-current	4 & 6.3?	4,810	-	2,850	-
1546	Investment in debt instrument in inactive market - non-current	4 & 6.4 and 8??	6,705	-	6,320	-
1550	Investment using equity method	4 & 6.8?	407,565	9	414,657	14
1600	Property, plant and equipment	4, 6.9 & 8??	1,360,136	32	927,242	31
1780	Intangible assets	4, 6.10 and 6.11???	434,988	10	38,329	1
1840	Deferred income tax assets	4 & 6.24?	68,646	2	51,483	2
1900	Other non-current assets		21,460	1	10,959	1
15xx	Total Non-current assets		2,304,390	54	1,451,840	49
1xxx	Total assets		\$4,295,411	100	\$2,955,765	100

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

Chairman: Lin Yan-Shen

Manager: Lin Yan-Shen

Accounting Manager: Deng Yuan-Chang

United Orthopedic Corporation and its subsidiaries

Consolidated Balance Sheet (continued)???

December 31, 2017 and December 31, 2016

Unit: NTD thousand

Liabilities and EquitiesThe following are the same as the "			December 31, 2017		December 31, 2016	
Code	Accounting item	Note	Amount	%	Amount	%
	Current liabilitiesThe following are the same as the "					
2100	Short-term loan	4 & 6.12?	\$690,048	16	\$395,625	13
2110	Short-term bills payable	4 & 6.13?	-	-	50,000	2
2150	Notes payable		15,073	-	2,100	-
2170	Accounts payable		86,181	2	41,596	1
2180	Accounts payable - related parties	7 ???	19,733	-	13,568	1
2200	Other accounts payable ???		370,032	9	249,859	8
2230	Current income tax liabilities ??	4 & 6.24?	40,019	1	42,724	2
2300	Other current liabilities ???		34,066	1	10,677	1
2322	Long-term loan due within one year or one operating cycle	4 & 6. ???15?	64,479	2	37,105	1
21xx	Total current liabilities		1,319,631	31	843,254	29
	Non-current liabilities					
2500	Financial Liabilities at Fair Value through Profit or Loss - Non-current	610?		-		-
2530	Corporate bonds payable	614?	385,713	9	-	-
2540	Long-term loans	4 & 6. ???15?	228,500	5	155,977	5
2570	Deferred income tax liabilities ?	4 & 6.24?	19,488	1	-	-
2600	Other non-current liabilities		1,834	-	1,766	-
2630	Long-term deferred income	68?	105,265	2	130,739	4
2640	Net defined benefit liability - non-current	4 & 6. .16?	16,856	-	22,483	1
25xx	Total non-current liabilities .		757,656	17	310,965	10
2xxx	Total Liabilities		2,077,287	48	1,154,219	39
	Equity attributable to owners of parent company	4 & 6.17?				
31xx	Capital .					
3100	Capital - common stock		797,129	19	717,469	24
3110	Total capital		797,129	19	717,469	24
3200	Capital surplus		1,243,611	29	915,406	31
3300	Retained earnings					
3310	Statutory surplus reserve		55,906	1	41,246	1
3320	Special surplus reserve		31,620	1	-	-
3350	Undistributed earnings?		129,464	3	145,834	5
	Total retained earnings		216,990	5	187,080	6
3400	Other equity					
3410	Difference on translation of financial statements of foreign operations		(47,655)	(1)	(31,620)	(1)
3491	Employee's unearned remuneration	4 & 6.18?	(5,160)	-	(15,173)	-
	Total other equity		(52,815)	(1)	(46,793)	(1)
32xx	Non-controlling equity		13,209	-	28,384	1
3xxx	Total Equity		2,218,124	52	1,801,546	61
	Total liabilities and equities		\$4,295,411	100	\$2,955,765	100

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

Chairman: Lin Yan-Shen

Manager: Lin Yan-Shen

Accounting Manager: Deng Yuan-Chang

United Orthopedic Corporation and its subsidiaries

Consolidated Comprehensive Income Statement

January 1 to December 31 of 2017 and 2016

Unit: NTD thousand

Code	Notes	2017		2016	
		Amount	%	Amount	%
4000	Operating Revenue	\$1,972,592	363	\$1,383,340	318
5000	Operating costs	542,968	100	435,688	100
5900	Gross profit	1,429,624	263	947,652	218
5920	Realized (Unrealized) profits from sales	(7,193)	(1)	31,816	7
5950	Net gross profit	1,422,431	262	979,468	225
6000	Operating expenses				
6100	Marketing Expense	841,682	155	511,678	117
6200	Administrative Expense	220,079	41	146,873	34
6300	R&D Expenses	198,734	37	161,231	37
	Total operating expenses	1,260,495	233	819,782	188
6900	Operating Profit	161,936	29	159,686	37
7000	Non-operating income and expenses				
7010	Other income	40,514	7	40,977	9
7020	Other profit and loss	(28,629)	(5)	(23,169)	(5)
7050	Financial cost	(13,242)	(2)	(5,575)	(1)
7770	Recognized share of the loss of the affiliated enterprises and joint ventures using equity method	5,083	1	(13,207)	(3)
	Total non-operating income and expenses	3,726	1	(974)	-
7900	Net income before tax	165,662	30	158,712	37
7950	Income tax expenses	(54,723)	(10)	(17,863)	(4)
8200	Current period net profit	110,939	20	140,849	33
8300	Other comprehensive gain or loss				
8310	Items that will not be reclassified to profit or loss				
8311	Remeasurement of defined benefit plans	(800)	-	(767)	-
8349	And income taxes relating to profit/loss items not to be reclassified	-	-	-	-
8360	Items that may be reclassified to profit or loss				
8361	Exchange differences on translation of financial statements of foreign operations	(11,442)	(2)	(47,971)	(11)
8365	and directly related equity of non-current assets held for sale	-	-	(4,616)	-
8370	Recognized share of other comprehensive profit and loss of associated companies and joint venture under equity method- Items that may be reclassified to profit or loss .	(4,982)	(1)	-	-
8399	Income tax relating to items that may be reassigned to profits and losses	-	-	4,320	1
	Current comprehensive income or loss (net value after tax)	(17,224)	(3)	(49,034)	(10)
8500	Total amount of current comprehensive profit/loss	\$93,715	17	\$91,815	23
8600	Profit attributable to:				
8610	Owners of parent company	\$130,264		\$146,601	
8620	Non-controlling equity	(19,325)		(5,752)	
	Total	\$110,939		\$140,849	
8700	Total comprehensive income attributable to:				
8710	Owners of parent company	\$113,429		\$102,816	
8720	Non-controlling equity	(19,714)		(11,001)	
	Total	\$93,715		\$91,815	
	Earnings per share (NT\$)				
9750	Basic earnings per share	\$1.78		\$2.06	
9850	Diluted earnings per share	\$1.75		\$2.05	

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

Chairman: Lin Yan-Shen

Manager: Lin Yan-Shen

Accounting Manager: Deng Yuan-Chang

United Orthopedic Corporation and its subsidiaries

Consolidated Statement of Changes in Equity

January 1 to December 31 of 2017 and 2016

Unit: NTD thousand

Code	Item	Equity attributable to owners of parent company										Equity attributable to owners of parent company	Non-controlling equity	Total equity
		Capital	Bonds exchanging for stockrights certificate	Capital reserve	Retained earnings			Other Equity						
					Statutory Surplus reserve	Special Surplus reserve	Undistributed Earnings	Exchange differences on translation of financial statements of foreign operations	Available For sale Non-current Assets Directly related equity	Employees unearned remuneration				
3100	3130	3200	3310	3320	3350	3410	3470	3491	31XX	36XX	3XXX			
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	
B1	2015 earnings distribution													
B1	Appropriate statutory surplus reserve	-	-	-	13,381	-	(13,381)	-	-	-	-	-	-	
B5	Cash dividend of common stock	-	-	-	-	-	(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 current comprehensive profit/loss	-	-	-	-	-	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	
A1	Balances on January 1, 2017	\$717,469	\$-	\$915,406	\$41,246	\$-	\$145,834	\$(31,620)	\$-	\$(15,173)	\$1,773,162	\$28,384	\$1,801,546	
B1	2016 earnings distribution													
B1	Appropriate statutory surplus reserve	-	-	-	14,660	-	(14,660)	-	-	-	-	-	-	
B3	Appropriated as special surplus reserve	-	-	-	-	31,620	(31,620)	-	-	-	-	-	-	
B5	Cash dividend of common stock	-	-	-	-	-	(99,554)	-	-	-	(99,554)	-	(99,554)	
C5	Composition of equity recognized due to convertible bond issuance generated by stock option	-	-	16,600	-	-	-	-	-	-	16,600	-	16,600	
D1	2017 net profit	-	-	-	-	-	130,264	-	-	-	130,264	(19,325)	110,939	
D3	Other comprehensive profit/loss in 2017	-	-	-	-	-	(800)	(16,035)	-	-	(16,835)	(389)	(17,224)	
D5	Total amount of current comprehensive profit/loss	-	-	-	-	-	129,464	(16,035)	-	-	113,429	(19,714)	93,715	
E1	Capital Increase	80,000	-	304,000	-	-	-	-	-	-	384,000	-	384,000	
M7	Changes in equity of ownership of subsidiaries	-	-	(4,539)	-	-	-	-	-	-	(4,539)	4,539	-	
N1	Share-based payment transaction - employee stock option	-	-	13,555	-	-	-	-	-	-	13,555	-	13,555	
N2	Share-based payment transaction - restricted employee entitlement to new shares	(340)	-	(1,411)	-	-	-	-	-	10,013	8,262	-	8,262	
Z1	Balance on December 31, 2017	\$797,129	\$-	\$1,243,611	\$55,906	\$31,620	\$129,464	\$(47,655)	\$-	\$(5,160)	\$2,204,915	\$13,209	\$2,218,124	

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

Chairman: Lin Yan-Shen

Manager: Lin Yan-Shen

Accounting Manager: Deng Yuan-Chang

United Orthopedic Corporation and its subsidiaries  
Consolidated Cash Flow Statement  
January 1 to December 31 of 2017 and 2016

Unit: NTD thousand

Code	Item	2017	2016	Code	Item	2017	2016
		Amount	Amount			Amount	Amount
AAAA	Cash flow from operating activities:			BBBB	Cash flow from investment activities		
A10000	Current net profit before tax	\$165,662	\$158,712	B00600	Investment in debt instrument in inactive market	(385)	(235)
A20000	Adjustment items:			B01200	Financial assets acquired at cost	(1,460)	-
A20010	Income/expense items that do not affect cash flow:			B01800	Acquisition of the investment using equity method	-	(337,677)
A20100	Depreciation expense	135,464	97,273	B02200	Acquisition of subsidiaries (less the cash received)	(526,883)	-
A20200	Amortization expense	14,928	6,271	B02300	Disposal of subsidiaries	-	17,697
A20300	Bad debts recorded	698	9,591	B02700	Acquisition of property, plant and equipment	(571,092)	(364,697)
A20400	Gains on financial assets at fair value through profit and loss	(40)	-	B02800	Disposal of property, plant, and equipment	15	11
A20900	Interest Expense	13,242	5,575	B03700	Increases in refundable deposits	(5,414)	(1,380)
A21200	Interest Income	(2,426)	(3,867)	B04500	Intangible assets acquired	(13,342)	(29,832)
A21900	Share-based payment remuneration cost	21,817	9,682	B04600	Disposal of intangible assets	4,049	-
A22300	Recognized share of the loss of the affiliated enterprises and joint ventures using equity method	(5,083)	13,207	B06800	Decrease in other non-current assets	-	(9,179)
A22500	Loss on disposal of property, plant and equipment	458	301	BBBB	Net cash outflow from investing activities	(1,114,512)	(725,292)
A22800	Gain on disposal of intangible assets	(724)	-				
A23100	Gain on disposal of investments	-	(7,335)	CCCC	Cash from financing activities		
A24000	Gain on realized sales	7,193	(31,816)	C00100	Increases in short-term loans	294,423	322,786
A29900	Other income	(25,474)	(19,105)	C00500	Increases in short-term notes and bills payable	-	50,000
A30000	Changes in assets and liabilities related to operating activities			C00600	Increases in short-term notes and bills payable	(50,000)	-
A31130	Increases in notes receivable	(13,502)	(2,594)	C01200	corporate bond issuance	400,000	-
A31150	Increases in accounts receivable	(67,223)	(43,750)	C01600	Long-term loans borrowed	99,897	7,478
A31160	(Increase) decrease in accounts receivable - related parties	(37,361)	111,154	C03100	Decrease in guarantee deposits	(1,612)	-
A31180	Increases in other payables	(6,434)	(4,617)	C04300	Other noncurrent liabilities	1,680	-
A31190	Decrease (increase) in other receivables - related parties	1,215	(3)	C04500	Cash dividend payout	(99,554)	(114,803)
A31200	Increases in inventories	(215,510)	(81,853)	C04600	Capital Increase	384,000	-
A31220	Increase in prepayment	(1,459)	(7,707)	C05600	Interest Paid	(10,808)	(5,312)
A31240	Increase in other current assets	(4,228)	(2,564)	C05800	Changes in non-controlling equity	-	39,385
A32130	Increase (decrease) in notes payable	7,928	(1,640)	CCCC	Net cash inflow from financing activities	1,018,026	299,534
A32150	Increase (decrease) in accounts payable	38,411	(14,663)				
A32160	(Increase) decrease in accounts payables - related parties	6,165	(30,940)	DDDD	Impacts on cash and cash equivalents from changes in exchange rates	(1,688)	(10,455)
A32180	Increases in other payables	54,444	52,151	EEEE	Decrease in current cash and cash equivalents	(76,539)	(253,511)
A32230	Increase in other non-current liabilities	7,295	5,192	E00100	Balance of Cash and Cash Equivalents, Beginning of Year	477,926	731,437
A32240	Decreases in net defined benefit liability	(6,427)	(5,689)	E00200	Balance of Cash and Cash Equivalents, End of Year	\$401,387	\$477,926
A33000	Cash inflow generated by operation	89,029	210,966				
A33100	Interest income received	2,460	3,775				
A33500	Income Tax Paid	(69,854)	(32,039)				
AAAA	Net cash inflow from operating activities	21,635	182,702				

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

Chairman: Lin Yan-Shen

Manager: Lin Yan-Shen

Accounting Manager: Deng Yuan-Chang

[Attachment 5]

United Orthopedic Corporation  
Earnings Distribution Table  
2017

Unit: NT\$

Item	Amount
Undistributed earnings at the beginning of the period	0
Plus: Net profit after tax of 2017	130,263,490
Minus: Provision for 10% statutory surplus reserve	(13,026,349)
Minus: Other comprehensive income of 2017	(799,657)
Minus: Amount appropriated as special surplus reserve	(16,034,697)
Distributable earnings of the current year	100,402,787
Distribution items	
Cash dividends for shareholders (NT\$1.25955590 per share) (Note 1, Note 2)	(100,402,787)
Unappropriated retained earnings	0
Note 1: All cash dividends of the current year shall be distributed with 2017 earnings.	
Note 2: For this period's motion to distribute cash dividends, the dividend will be calculated to the amount of one whole NT dollar, and the remaining amounts below NT\$1 will be rounded down. Shares below NT\$1 will be adjusted from the largest decimal place and the number of accounts in descending order until the total amount of cash dividends has been distributed.	

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

## [Appendix 1]

### United Orthopedic Corporation Articles of Incorporation

#### **Chapter 1 General Provisions**

Article 1: The Company is organized in accordance with Company Law under the name of United Orthopedic Corporation. The Company's English name is United Orthopedic Corporation.

Article 2: The Company may engage in the following business activities:

(1) Research, development, production, and sales of the following products:

- I. Artificial orthopedic implants: including artificial joints, artificial bone plates, bone nails, bone needles, etc.
- II. Orthopedic surgical equipment and its manufacturing equipment.
- III. Special metal and plastic materials.

The import and export and trade business of the products mentioned above.

Article 3: The Company's head office is established in Hsinchu Science Park. Where necessary the Company may establish branch companies and offices domestically or overseas subject to the resolution by its Board of Directors and the approval of the competent authority.

Article 4: The Company may provide guarantees for external parties based on business requirements.

The Company's investment shall be exempted from the 40 percent restriction specified in Article 13 of the Company Act in relation to the percentage of total investment amount that can be made with a company's paid-in capital. Reinvestment and related affairs shall require resolution from the meeting of the Board of Directors.

#### **Chapter 2 Shares**

Article 5: The Company's total capital is set at NT\$1 billion, divided into 100 million shares at NT\$10 par value. The Board of Directors is authorized to issue the unissued shares based on actual requirements.

Article 6: Deleted.

Article 7: The shares of the Company shall be name-bearing certificates. They are issued after signed and sealed by more than three Directors and certified in accordance with relevant laws and regulations. Stocks issued by the Company are not required to be printed. The Company, however, should contact the securities depository and custodian institution for registration of the share certificates.

Article 8: The transfer of shares shall be suspended within 60 days prior to the convening date of a regular shareholders' meeting, or within 30 days prior to the convening date of a special shareholders' meeting, or within 5 days prior to the target date fixed by the Company for distribution of dividends, bonus or other benefits.

#### **Chapter 3 Shareholders' Meetings**

Article 9: Shareholders' meeting can be divided into regular meetings and special meetings. Regular meetings are convened once a year, and usually within six months of the end of each fiscal year. The regular meeting is convened by the Board of Directors according to the law. Special meetings may be convened according to the law when necessary.

Article 10: When a shareholder cannot attend the Shareholder's Meeting, he/she/it may appoint a proxy to attend the Shareholder's Meeting on his/her/its behalf by executing a letter of authorization printed by the Company stating the scope of power authorized to the proxy. The use of proxies shall be processed in accordance with the Company Act and the "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" promulgated by the competent authority.

Article 11: Each share is entitled to one voting right.

Article 12: Resolutions at a Shareholder's Meeting shall, unless otherwise provided for in related regulations and laws, be adopted by at least half of all shareholders present. Shareholders present who represent more than half of the total number of voting rights.

#### **Chapter 4 Directors and Supervisors**

Article 13: The Company shall have seven Directors and three Supervisors serving three-year terms. They shall be elected among persons of adequate capacity by the shareholders' meeting, and they may be re-elected. Following the public offering of the Company's shares, the total shareholding percentage of all Directors and Supervisors shall be determined by regulations of the competent authority of securities.

The aforementioned Directors shall consist of no less than two Independent Directors pursuant to Article 14-2 of the Securities and Exchange Act; a candidate nomination system shall be adopted in the election and the Independent Directors shall be elected by the shareholders meeting from the list of candidates. The guidelines for qualifications, shareholdings, restrictions on concurrent posts, nomination, election and any other matters to be complied with by the Independent Directors of the Company shall be prescribed by the relevant regulations of the competent authority in charge of securities.

The Company may purchase liability insurance policies that cover the Directors and Supervisors' term of service, and therefore insure itself against liabilities incurred by the Directors and Supervisors over the course of service.

Article 14: The Board of Directors is formed by the Directors. The Chairman, who is to represent the Company externally, is elected by a majority voting of the Directors present at a meeting of its Board of Directors attended by two-

thirds or more of the Directors of the Company Supervisors shall be invited to meetings of the Board of Directors.

Article 15: The Chairman shall chair meetings of the Board of Directors. If the Chairman is unable to perform his duties due to leave of absence or any reason, the Vice Chairman shall act on the Chairman's behalf. If the Vice Chairman is also on leave or unable to perform his duties, the Chairman shall appoint one of the Directors to act on his behalf. In the absence of such a designation, the Directors shall elect from among themselves an Acting Chairman. The resolutions of meetings of the Board of Directors shall be processed in accordance with the Company Act. If a Director is unable to attend a meeting of the Board of Directors in person, the Director may appoint another director to act on behalf of the absent Director in writing. One Director may only act on behalf of one other Director.

Article 16: Compensations for Chairman, Directors and Supervisors are delegated to the decision from the Board of Directors based on their level of participation and contributions in the Company's operations and also based on the average industry standards.

## **Chapter 5 General Manager**

Article 17 The Company shall have one General Manager whose appointment, dismissal and remuneration shall be processed in accordance with Article 29 of the Company Act.

## **Chapter 6 Accounting**

Article 18: The Company's fiscal year begins on January 1 and ends on December 31 each year. The end of December is the total settlement period for the fiscal year. The Board of Directors shall formulate the following account books for Supervisors' audit and submit them for the ratification in the shareholders' meeting:

- (1) Business Report
- (2) Financial Statements
- (3) Earnings distribution or loss reimbursement proposals

Article 19: Deleted.

Article 20: In case the Company makes a profit in the current year (profits refer to income before tax and before remuneration distribution to the employees, Directors, and Supervisor), 12% shall be allocated as the employees' remuneration and no more than 3% as the Directors and Supervisors' remuneration. However, when the company has accumulated losses (including adjustment on non-distributed earnings), funds shall be reserved to make up for accumulative deficits. The employees' remuneration and the Directors' and Supervisors' remuneration

mentioned above shall only be distributed through cash. It shall be determined by the Board of Directors and reported to the shareholders' meeting.

Article 20-1: 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, such restrictions shall not apply. After the statutory surplus reserve has been retained or rotated in accordance with the regulations or requests made by competent agencies, 50% to 100% of the earning, along with the undistributed earnings for the previous year shall be distributed as shareholders' dividends, of which, 50% of the shareholders' dividends that are distributed in the current year shall be distributed as cash dividends.

### **Chapter 7 Supplementary Provisions**

Article 21: Matters not prescribed in the Articles, if any, shall be conducted in accordance with the provisions of the Company Act.

Article 22: The Articles of Incorporation were established on February 1, 1993.

The first amendment was made on April 9, 1994.

The second amendment was made on August 31, 1994.

The third amendment was made on December 15, 1996.

The fourth amendment was made on December 15, 1996.

The fifth amendment was made on May 15, 1997.

The sixth amendment was made on July 15, 1997.

The seventh amendment was made on January 5, 1998.

The eighth amendment was on June 5, 1998.

The ninth amendment was made on June 10, 1999.

The tenth amendment was made on June 14, 2000.

The eleventh amendment was made on June 19, 2002.

The twelfth amendment was made on June 17, 2003.

The thirteenth amendment was made on June 17, 2004.

The fourteenth amendment was made on November 30, 2004.

The fifteenth amendment was made on June 16, 2005.

The sixteenth amendment was made on June 14, 2006.

The seventeenth amendment was made on June 13, 2007.

The eighteenth amendment was made on June 18, 2010.

The nineteenth amendment was made on June 24, 2013.

The twentieth amendment was made on June 22, 2016.

United Orthopedic Corporation

Person in Charge: Lin, Yan-Shen

## [Appendix 2]

### United Orthopedic Corporation Rules and Procedures of Shareholders' Meeting

#### Article 1 (Basis of Establishment)

To establish an excellent governance system and a sound monitoring function, and to strengthen management mechanism, the Company, in accordance with Article 5 of Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, formulated these rules.

Article 2 Unless otherwise stipulated in related laws and regulations or the Articles of Incorporation of the Company, all shareholder meeting proceedings shall be conducted according to these rules.

#### Article 3 (Convention and Notice of Annual Meeting of Shareholders)

Unless otherwise provided by regulations, shareholders' meeting is convened by the Board of Directors.

The Company shall inform each shareholder 30 days before the date of the meeting. The Company shall inform shareholders holding less than 1,000 shares of registered shares of the Shareholders Meeting by uploading public announcement on the Market Observation Post System (MOPS) 30 days before the date of a regular Shareholders Meeting. For Special Shareholders Meetings, the Company shall inform shareholders 15 days before the date of the meeting. The Company shall inform shareholders holding less than 1,000 shares of registered shares by uploading public announcement on the Market Observation Post System (MOPS) 15 days before the date of a regular Shareholders Meeting. The notice or public announcement shall specify the reasons for convening meetings. Election of directors and supervisors, alteration of the Articles of Incorporation, and dissolution, merger, spin-off, or any matters as set forth in Paragraph I, Article 185 of the Company Act, Article 26-1 and Article 43-6 of the Securities and Exchange Act, shall be itemized in the causes or subjects to be described in the notice, and shall not be brought up as Extempore Motions.

#### Article 4 (Proxy attendance and authorization)

Shareholders may appoint a proxy to attend the meeting by expressing the intent in the form for appointment of representation provided by the Company, stating the scope of authorization and the identity of the proxy. A shareholder may only execute one power of attorney and appoint only one proxy. The shareholder shall submit such written proxy to the company no later than 5 days prior to the date of the shareholders' meeting. In case two or more written proxies are received from one shareholder, the first one received by the Company shall prevail, unless a declaration is made to cancel the previous proxy appointment.

#### Article 5 (Principles determining time and place of shareholders' meeting)

The venue where a shareholder meeting is to be held shall be in the premises of this Company

or a location easy for shareholders to access and appropriate for holding meetings. All shareholder meetings may not begin before 9:00 a.m. or after 3:00 p.m. The opinions of the independent directors shall be fully taken into consideration in decision of the location and time of a shareholder meeting.

#### Article 6 (Preparation of attendance logs and documents)

The company shall provide an attendance log to record attendance of shareholders or proxies thereof (collectively referred to as shareholders below); alternatively, attendance cards may be presented to signify their presence at the meeting.

The Company shall furnish attending shareholders with the proceedings manual, annual report, attendance card, speaker's slips, voting slips, and other meeting materials. Where there is an election of Directors or Supervisors, pre-printed ballots shall also be furnished.

Shareholders shall attend shareholders meetings upon presentation of attendance cards, sign-in cards, or other certifications. Solicitors soliciting proxy forms shall also bring identification documents for verification.

When the government or a juristic person is a shareholder, it may be represented by more than one representative at a shareholders' meeting. When a juristic person is appointed to attend as proxy, it may designate only one person to represent it in the meeting.

#### Article 7 (Meeting chair and participants)

Shareholders' meetings that are convened by the Chairman shall be chaired by the Chairman. If the Chairman is unable to perform such duties due to leave of absence or any reason, the Vice Chairman shall act on the Chairman's behalf. If the Vice Chairman is also unavailable or is non-existent, the Chairman may appoint one of the directors to act on the Chairman's behalf. If the Chairman does not appoint a delegate, one shall be elected among the directors to act on the Chairman's behalf.

Shareholders' meetings convened by the Board of Directors should be attended by a majority of the Directors.

If a shareholders' meeting is convened by a party with power to convene but other than the Board of Directors, the convening party shall chair the meeting. When there are two or more such convening parties, they shall mutually select a chair from among themselves.

The Company may appoint its attorneys, certified public accountants, or related persons retained by it to attend a shareholders meeting in a non-voting capacity.

#### Article 8 (Documentation of shareholders' meeting by audio or video)

The Company shall document the shareholders' meeting by audio or video, and recorded materials shall be retained for at least 1 year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the ballots shall be retained until the conclusion of the litigation.

#### Article 9 (Calculation of representative shareholding and meeting commencement)

Attendance at shareholders' meetings shall be calculated based on numbers of shares. The number of shares in attendance shall be calculated according to the shares registered in the attendance book and attendance cards handed in.

The chair shall call the meeting to order at the appointed meeting time. However, when the attending shareholders do not represent a majority of the total number of issued shares, the chair may announce a postponement, provided that no more than two such postponements, for a combined total of no more than 1 hour, may be made. If the quorum is not met after two postponements and the attending shareholders still represent less than one third of the total number of issued shares, the chair shall declare the meeting adjourned.

If the quorum is not met after two postponements as referred to in the preceding paragraph, but the attending shareholders represent one third or more of the total number of issued shares, a tentative resolution may be adopted pursuant to Article 175, Paragraph 1 of the Company Act; all shareholders shall be notified of the tentative resolution and another shareholders' meeting shall be convened within 1 month.

When, prior to conclusion of the meeting, the attending shareholders represent a majority of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders meeting pursuant to Article 174 of the Company Act.

#### Article 15 (Discussion of Agenda Items)

If a shareholders meeting is convened by the Board of Directors, the meeting agenda shall be set by the Board of Directors. The meeting shall proceed in the order set by the agenda, which may not be changed without a resolution of the shareholders meeting.

The provisions of the preceding paragraph apply mutatis mutandis to a shareholders' meeting convened by a party with the power to convene that is not the board of directors.

The chair may not declare the meeting adjourned prior to completion of deliberation on the meeting agenda of the preceding two paragraphs (including extempore motions), except by a resolution of the shareholders' meeting. If the chair declares the meeting adjourned in violation of the rules of procedure, the other members of the board of directors shall promptly assist the attending shareholders in electing a new chair according to statutory procedures, by agreement of a majority of the votes represented by the attending shareholders, and then continue the meeting.

The chair shall allow ample opportunity during the meeting for explanation and discussion of proposals and of amendments or extempore motions put forward by the shareholders; when the chair is of the opinion that a proposal has been discussed sufficiently to put it to a vote, the chair may announce the discussion closed and call for a vote.

#### Article 10 (Shareholders' speeches)

Before speaking, the attending Shareholder shall complete the speaker's slip indicating the subject of speech, Shareholder's account number (or the number of attendance permit) and account name. The sequence of speeches shall be determined by the chair.

A shareholder in attendance who has submitted a speaker's slip but does not actually speak shall

be deemed to have not spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail.

Except with the consent of the chair, a shareholder may not speak more than twice on the same proposal, and a single speech may not exceed 5 minutes. If the shareholder's speech violates the rules or exceeds the scope of the agenda item, the chair may terminate the speech.

When an attending shareholder is speaking, other shareholders may not speak or interrupt unless they have sought and obtained the consent of the chair and the shareholder that has the floor; the chair shall stop any violation.

When a juristic person shareholder appoints two or more representatives to attend a shareholders' meeting, only one of the representatives so appointed may speak on the same proposal.

After an attending shareholder has spoken, the chair may respond in person or direct relevant personnel to respond.

#### Article 12 (Calculation of voted shares and recusals)

Voting at a shareholders' meeting shall be calculated based the number of shares.

With respect to resolutions of shareholders' meetings, the number of shares held by a shareholder with no voting rights shall not be calculated as part of the total number of issued shares.

When a shareholder is an interested party in relation to an agenda item, and there is the likelihood that such a relationship would prejudice the interests of the Company, that shareholder may not vote on that item, and may not exercise voting rights as proxy for any other shareholder.

The number of shares for which voting rights may not be exercised under the preceding paragraph shall not be calculated as part of the voting rights represented by attending shareholders.

With the exception of a trust enterprise or a shareholder services agent approved by the competent securities authority, when one person is concurrently appointed as proxy by two or more shareholders, the voting rights represented by that proxy may not exceed 3% of the voting rights represented by the total number of issued shares. If that percentage is exceeded, the voting rights in excess of that percentage shall not be included in the calculation.

#### Article 13 (Voting, ballot examination and ballot count)

Shareholders shall be entitled to one vote for each share held, except where shareholders are restricted or prohibited from exercising voting rights.

Except as otherwise provided in the Company Act and in the Company's Articles of Incorporation, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders.

A proposal is deemed to have passed when no attending shareholders gave a dissent after being inquired by the chair, and the effect thereof is the same as a vote; if there are dissents, a vote in the preceding paragraph shall be adopted.

When there is an amendment or an alternative to same proposal, the chair shall present the amended or alternative proposal together with the original proposal and decide the order in which they will be put to a vote. When any one among them is passed, the other proposals will then be

deemed rejected, and no further voting shall be required.

Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the chair, provided that all monitoring personnel shall be shareholders of the Company. Vote counting for shareholders meeting proposals or elections shall be conducted in public at the place of the shareholders' meeting. Immediately after vote counting has been completed, the results of the voting, shall be announced on-site at the meeting, and a record made of the vote.

#### Article 14 (Elections)

The election of Directors or Supervisors at a shareholders meeting shall be held in accordance with the applicable election and appointment rules adopted by the Company, and the voting results shall be announced on-site immediately.

The ballots for the election referred to in the preceding paragraph shall be sealed with the signatures of the monitoring personnel and kept in proper custody for at least 1 year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the ballots shall be retained until the conclusion of the litigation.

#### Article 15 (Meeting minutes and acknowledgments)

Matters relating to the resolutions of a shareholders' meeting shall be recorded in the meeting minutes. The meeting minutes shall be signed or sealed by the chair of the meeting and a copy distributed to each shareholder within 20 days after the conclusion of the meeting.

Distribution of the meeting minutes as described in the preceding paragraph may be conducted by uploading them to the Market Observation Post System.

The meeting minutes shall accurately record the year, month, day, and place of the meeting, the chair's full name, the methods by which resolutions were adopted, and a summary of the deliberations and their results, and shall be retained for the duration of the existence of the Company.

A proposal passed via the resolution method in the preceding paragraph shall be recorded as "passed unanimously after the Chair inquires the all shareholders in attendance" after the Chair has inquired all attending shareholders and no shareholders have voiced an objection. If shareholders do raise any objection, the resolution must specify the voting method adopted and the number and percentage of rights voted in favor.

#### Article 16 (Public disclosure)

On the day of a shareholders' meeting, the Company shall compile in the prescribed format a statistical statement of the number of shares obtained by solicitors through solicitation and the number of shares represented by proxies and shall make an express disclosure of the same at the place of the shareholders meeting.

If matters put to a resolution at a shareholders' meeting constitute material information under applicable laws or regulations or under Taiwan Stock Exchange Corporation (or Taipei Exchange) regulations, the Company shall upload the content of such resolution to the MOPS within the prescribed time period.

Article 17 (Maintaining order at the meeting venue)

Staff handling administrative affairs of a shareholders' meeting shall wear identification cards or arm bands.

The chair may direct the proctors or security personnel to help maintain order at the meeting place. When proctors or security personnel help maintain order at the meeting place, they shall wear an identification card or armband bearing the word "Proctor."

At the place of a shareholders meeting, if a shareholder attempts to speak through any device other than the public address equipment set up by the Company, the chair may prevent the shareholder from so doing.

When a shareholder violates the rules of procedure and defies the chair's correction, obstructing the proceedings and refusing to heed calls to stop, the chair may direct the proctors or security personnel to escort the shareholder from the meeting.

Article 18 (Recess and resumption of shareholders meeting)

When a meeting is in progress, the chair may announce a break based on time considerations. If a force majeure event occurs, the chair may rule the meeting temporarily suspended and announce a time when, in view of the circumstances, the meeting will be resumed.

If the meeting venue is no longer available for continued use and not all the items (including extempore motions) on the meeting agenda have been addressed, the shareholders' meeting may adopt a resolution to resume the meeting at another venue.

A resolution may be adopted at a shareholders' meeting to defer or resume the meeting within 5 days in accordance with Article 182 of the Company Act.

Article 19 to Article 20: Deleted.

Article 21: Matters not addressed herein shall be governed by the Company Act, the Articles of Incorporation of the Company, and other relevant laws and regulations.

Article 22: These Rules shall take effect after approval by the shareholder meeting and the same procedure shall apply for amendments.

**[Appendix 3]**

## Shareholding Status of Directors and Supervisors, United Orthopedic Corporation

Base date: April 14, 2018

Position	Name	Appointment date	Term	Number of shares held at the time of appointment		Shares currently held	
				Number of shares	Percentage	Number of shares	Percentage
Chairperson and General Manager	Lin, Yan-Shen	106.6.20	3 years	2,150,000	3.00%	2,240,000	2.81%
Director	Lin, Chun-Sheng	106.6.20	3 years	1,758,629	2.45%	1,905,743	2.39%
Director	Hau, Hai-Yen	106.6.20	3 years	661,714	0.92%	698,646	0.88%
Director	Ng Chor Wah Patrick	106.6.20	3 years	1,180,076	1.64%	1,322,139	1.66%
Director	Chi-Yi Investment Co. Ltd.	106.6.20	3 years	1,029,312	1.43%	665,417	0.83%
Independent Director	Wang, Yueh-Cheng	106.6.20	3 years	0	0.00%	0	0.00%
Independent Director	Lee, Chun-Hsien	106.6.20	3 years	0	0.00%	0	0.00%
All Directors				6,779,731		6,831,945	
Supervisor	Wong, Chi-Yin	106.6.20	3 years	758,993	1.06%	800,993	1.00%
Supervisor	Wang, Ching-Hsiang	106.6.20	3 years	0	0.00%	0	0.00%
Supervisor	Chen, Li-Ju	106.6.20	3 years	0	0.00%	0	0.00%
All Supervisors				758,993		800,993	

I. Book closure date: April 14, 2018

II. Number of Shares Issued: 79,700,847 shares

III. The minimum statutory shareholding of all directors: 6,377,027 shares.

IV. The minimum statutory shareholding of all supervisors: 637,702 shares.

## [Appendix 4]

### Information Concerning Employee Remuneration and Remuneration for Directors and Supervisors:

(I). The impact from the stock grants proposed during the shareholder meeting on company performance and earnings per share:

Not applicable for the Company because it did not decide to grant stocks.

### (II). Employee Remuneration and Director and Supervisor Remuneration

1. Pursuant to the Company's Articles of Incorporation, in case the Company makes a profit in the current year (profits refer to income before tax and before remuneration distribution to the employees, Directors, and Supervisor), 12% shall be allocated as the employees' remuneration and no more than 3% as the Directors and Supervisors' remuneration. However, when the company has accumulated losses (including adjustment on non-distributed earnings), funds shall be reserved to make up for accumulative deficits.

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

2. The Board of Directors have passed the proposal to distribute employees' remuneration:

The status of the distribution of the Company's 2017 earnings distribution proposal approved by the Board of Directors on March 20, 2018.

The Board of Directors resolved to distribute NT\$24,796 thousand from the Company's 2017 earnings as employees' remuneration and NT\$6,199 thousand and remuneration for Directors and Supervisors.

3. Discrepancies between the estimated and actual appropriated amount of the Company's 2017 employee' remuneration and remuneration for Directors and Supervisors, reasons and processing status:

Unit: NT\$

	Estimated amount	Actual distributed amount	Variances	Reasons and processing method
Employee remuneration	26,211,840	24,762,042	1,449,798	The discrepancies between the estimation basis of the employee
Directors and Supervisors	6,552,960	6,199,010	353,950	

remuneration				remuneration and the Directors' and Supervisors' remuneration and the actual distributed amount are mainly due to difference in estimation. The difference will be listed on the profits and losses of 2018
Total	32,764,800	30,961,052	1,803,748	

Note: Employee remuneration and Director and Supervisor remuneration shall be distributed in cash

4. Use of earnings in the previous fiscal year for distribution of employee remuneration and Director and Supervisor remuneration:

The employee remuneration and remuneration for Directors and Supervisors that were distributed by the company in the previous year (2016) were not different than the proposal passed by the Board of Directors.

Unit: NT\$

	Estimated amount	Actual distributed amount	Variances	Reasons and processing method
Employee remuneration	23,060,803	23,060,803	0	The discrepancies between the estimation basis of the employee remuneration and the Directors' and Supervisors' remuneration and the actual distributed amount are mainly due to difference in estimation. The difference will be listed on the profits and losses of 2017
Directors and Supervisors remuneration	5,694,632	5,765,201	(70,569)	
Total	28,755,435	28,826,004	(70,569)	

Note: Employee remuneration and Director and Supervisor remuneration shall be distributed in cash