Stock Code: 4129

# United Orthopedic

# 2018 Annual Report

Date of Publication: April 25, 2019

Annual report query website: http://mops.twse.com.tw

I. Company Spokesman: Lin, Yan-Shen
Title: Chairman
Tel: (02)2929-4567 ext.1101
Email: jasonlin@uoc.com.tw
Acting Spokesperson: Peng, Yu-Hsin
Title: Deputy General Manager
Tel: (02)2929-4567 ext. 1168
Email: maggiepeng@uoc.com.tw

II. Addresses and Telephone Numbers of the Company Headquarters and Subsidiaries:

| | | | |
|---|---|---|---|
| Company | : No.57, Yuanqu 2nd Rd., Hsinchu Science Park, Hsinchu City, Taiwan (R.O.C.) | TEL: | 03-5773351 |
| Taipei Office | : 12F., No.80, Sec. 1, Chenggong Rd., New Taipei City, Taiwan (R.O.C.) | TEL: | 02-29294567 |
| Hsinchu Plant | : No.57, Yuanqu 2nd Rd., Hsinchu Science Park, Hsinchu City, Taiwan (R.O.C.) | TEL: | 03-5773351 |
| Kaohsiung Plant | : No.16, Luke 1st Rd., Luzhu Dist., Kaohsiung City, Taiwan (R.O.C.) | TEL: | 07-6955850 |

III. Stock Transfer Handling Agency:
Department of Stock Transfer, Jih Sun Securities Co., Ltd.
Address: 7F., Sec. 2, Nanjing E. Rd., Zhongzheng Dist., Taipei, Taiwan (R.O.C.)
Tel: (02)2541-9977
Website: http://www.jihsun.com.tw

IV. Name of the CPA Attesting the Financial Statements in the Most Recent Year:
Accountant: Chang, Chih-Ming, CPA; Huang, Chien-Che, CPA
Name of accounting firm: Ernst & Young
Address: No. 333, Sec. 1, Keelung Rd., Xinyi Dist., Taipei City, Taiwan (R.O.C.)9F
Website: http://www.ey.com
Tel: (02)2757-8888

V. Overseas Trade Places for Listed Negotiable Securities and the Inquire Method of Overseas Securities Information
N/A

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

# Contents

# Chapter 1 Letter to Shareholders

Dear shareholders,

Thank you for attending the 2019 Annual General Meeting of the Company. I would like welcome everyone on behalf of the United Orthopedic Corporation.

## I. 2018 operating results

(I) Business Plan implementation results

The net operating revenue of the Company for 2018 was NT$1,789,376,000, representing a year-on-year increase of NT$1,581,054,000, or 13.2%, and the consolidated net operating revenue was NT$2,332,247,000. Net profit after tax was NT$2,332,247,000 in 2018, representing an increase of 18.2% from NT$1,972,592 in 2017. The profit after tax in 2018 was NT$102,492,000 which was a decrease of NT$8,447,000 from NT$110,939,000 in 2017.

(II) Budget execution

The Company's undisclosed budget amount and overall operating conditions are roughly the same with the predestinated operating plan in accordance with the current laws.

(III) Consolidated income and expenses and profitability analysis

(1) Consolidated income and expenses

Unit: NT$1,000

| Item | 2018 | 2017 |
|---|---|---|
| Current period net profit | 102,492 | 110,939 |
| Cash inflow from operating activities | 18,354 | 21,635 |
| Cash outflow from investing activities | (387,998) | (1,114,512) |
| Cash inflow from financing activities | 494,784 | 1,018,026 |
| Increase (decrease) of the cash and cash equivalents | 127,097 | (76,539) |
| Opening balance of cash and cash equivalents | 401,387 | 477,926 |
| Ending balance of cash and cash equivalents | 528,484 | 401,387 |

(2) Consolidated profitability analysis

The total revenue for 2018 was NT$2,332,247,000, representing an increase of NT$1,972,247,000 from last year. The net profit after tax was NT$102,492,000 which was a decrease of NT$8,447,000 from NT$110,939,000 in the previous year. The earnings per share was NT$1.61 which was a decrease from NT$1.78 in the previous year. The decrease is mainly attributed to the increase in marketing and promotion fees in Taiwan, Europe, and subsidiaries of A-SPINE Asia Co., Ltd. in various regions from the previous year.

(IV) R&D status

The Group's research and development costs for the year of 2018 included research and development costs of NT$ 236,860 thousand which was an increase of NT$38,126 thousand or 19.2% from 2017. It accounted for 10.2% of total revenue of 2018 and approximately one tenth of the revenue.

## II. Overview of 2018 Business Plan

(I) Operating objectives

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 year. The target is to provide more than ninety percent of coverage in the comprehensiveness of the product line compared to major international companies by the end of the year and effectively increase the Company's overall competitiveness.

B. Actively strengthen the international brand awareness: The Company has gradually established a brand awareness through continuous exposure in the international medical conferences and professional journals in the past two years. The Company has accumulated excellent results in 25 years which proved that the Company's products are equal to that of major manufacturers in the West. The gap lies only in brand awareness. The Company must let more doctors in the West recognize our brand. The Company shall build a professional and academic image for brand management that is different from the promotion and marketing methodology adopted for general consumer products. We shall appoint authoritative doctors for collaboration in academic research or product development. This will help us build lasting partnerships and effectively improve our brand image.

C. Continue to strengthen the existing domestic and international sales channels: The output of the current global artificial joint industry is approximately US$17 billion and we only retain 0.4% to 0.5% of the market share. The Company shall continue to optimize services and commit itself to reputation marketing tasks. We shall also develop new distributors in new countries through participation in international medical conferences. Our product series have passed application procedures in Japan this year and we shall officially launch products in Japan.

(II) Estimated sales volume and supporting info

Unit: Pieces

| Main products | 2019 expected sales target |
|---|---|
| | Quantity |
| Artificial joints | 296,763 pieces |
| Spinal products | 152,417 pieces |

Note: Other product incomes are not listed because no data on the quantities are available.

The sales targets for 2019 were set based on basic assumption for the future operating development of the Company, purchase orders for products, and supply and demand on the market as well as the Company's expansion of production capacity.

(III) Significant sales and production policies

Phase 3of new construction of Kaohsiung Plant was officially completed in the third quarter of 2017. Mass production of the Company's products have begun in Kaohsiung Plant and we have completed the one-stop production line at Kaohsiung Plant to provide a strong and powerful foundation for the Company's future revenue and growth.

## III. Future corporate development strategy

United Orthopedic Corporation has established a marketing network for nearly 40 countries in the past 25 years with its own brand of artificial joints. In addition to existing artificial joint product lines on the platform, we shall continue to expand the product line or seek complementary products to provide comprehensive solutions for orthopedic medicine and leverage the platform effect in the Internet age. The Company has taken the first step in the acquisition of A-SPINE Asia Co., Ltd. two to three years ago. We shall continue to develop an international platform to expand the Company beyond the brand of products to a brand of a platform and let United Orthopedic Corporation advance into the ranks of first-rate international manufacturers.

## IV. Impact of the competitive environment, regulatory environment, and overall business environment

Mergers have become one of the main strategies adopted by competitors for scale-up and expansion on the international market. Only large players can be expected to survive. The Company faces an increasing amount of competition on the market and we can only strengthen our own competitive advantages to counter the pressure of large international manufacturers. The Company has maintained growth rates in its own brand that were several times higher than the average in the industry. We have proved our capabilities and capacity for as David had in countering Goliath.

Regulations have become increasingly rigorous in recent years and regulators have tightened controls in the United States FDA, CE Mark of European Union, CFDA of China, and TFDA of Taiwan. The tightened controls have increased the time required to obtain certifications, the cost of related tests, and entry barriers of the industry. The Company has accumulated more than 20 years of experience in regulatory filing in different countries. The Company is confident that it shall meet all regulatory requirements for launching products.

## Chapter 2 Company Profile

### I. Date of Founding

The Company was founded on March 5, 1993.

### II. Company History

| | |
|---|---|
| 1993 | •The Company was founded. The registered capital is NT$27,500,000. |
| 1994 | •The registered capital is NT$112,250,000.<br>•"United" Uniqhip Total Hip System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000587.<br>•First clinical used Uniqhip Total Hip System. |
| 1995 | •"The Sintering Technology of Porous Coating on CoCrMo Alloy" has been awarded innovative technology subsidy award of Science-Based Industrial Park of NT$1,000,000.<br>•Passed international quality assurance certification ISO 9001. |
| 1996 | •"United Pin and Wire" has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000630. |
| 1997 | •The registered capital is NT$116,125,000.<br>•"United Pin" has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000659.<br>•"United" UKNEE Total Knee System products have received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000663.<br>•"The design, development, and production of Tumor UKNEE Total Knee System and surgery tool" has been awarded innovative technology subsidy award of Science-Based Industrial Park of NT$2,900,000.<br>•"United Bone Screw" received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000691. |
| 1998 | •"United UKNEE Total Knee System" has been awarded innovative product award of Science-Based Industrial Park in 1997.<br>•Conducted capital increase by NT$70,000,000, the registered capital after capital increase is NT$186,125,000.<br>•Permitted to conduct make up public offering.<br>•"Tumor UKNEE Total Knee System" has been awarded innovative product award of Science-Based Industrial Park in 1998.<br>•<u>UKNEE Total Knee System has been awarded Ministry of Economic Affairs Taiwan Excellence Certification.</u><br>•"United" Moore Hip Prosthesis has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000716.<br>•"United" Hip System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000717. |

| | |
|---|---|
| 1999 | •Conducted capital increase by NT$40,000,000, the registered capital after capital increase is NT$226,125,000.<br>•United UKNEE Total Knee System has been awarded "Small and Medium Sized Enterprises Innovative Research Award" by Ministry of Economic Affairs.<br>•Passed international quality assurance certification ISO 9001/EN46001.<br>•GMP well-manufactured medical equipment specification certification.<br>•"The design, development, and production of bipolar hip system and surgery tool" has been awarded innovative technology subsidy award of Science-Based Industrial Park, which was awarded NT$2,500,000.<br>•United UKNEE Total Knee System has been awarded "National Quality Gold Award."<br>•"Stabilized UKNEE Total Knee System" has been awarded innovative product award of Science-Based Industrial Park in 1999. |
| 2000 | •United UKNEE Total Knee System has been certified by CE of European Union.<br>•"United" U2 Hip Stem has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000884.<br>•Uniqhip Total Hip System has been certified by FDA of US. |
| 2001 | •"United" U2 Hip Stem (HA/Porous) has been certified by FDA of US.<br>•"United" UNIFY Femur Plate System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000897.<br>•"United" U2 Hip Stem (HA/Porous) has been certified by CE of European Union.<br>•"United" U2 Hip Stem (acrylic cement) has been certified by CE of European Union. |
| 2002 | •"United" U2 Hip Stem (HA coating) has been awarded Bronze medal of Medical Equipment Category of Drug Research and Development Science and Technology Award.<br>•"UNITED" No. 2 Uniqhip Total Hip System has been awarded Ministry of Economic Affairs Taiwan Excellence Certification.<br>•CE of European Union has certified "United" 22mm/28mm ceramic femoral head.22mm28mm<br>•"United" U2 acetabular cap and fillings have been certified by CE of European Union.<br>•"U2 Hip Stem" has been awarded innovative product award of Science-Based Industrial Park in 2002. |
| 2003 | •Passed international quality assurance certification ISO 13485: 1996 edition.<br>•"United" UKNEE total knee system, mobile has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 001038.<br>•"United" Unify Femur Plate System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 001064.<br>•A structural improved femur rasp fastener has received patent rights from the United States Patent and Trademark Office. The patent number is US 6663636 B1. |
| 2004 | •"United" U2 acetabular component has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 001071. |

| | |
|---|---|
| | •"United" Ustar system has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production Zi No. 001119.<br>•"United" Ustar system - femoral articulation has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production Zi No. 001119.<br>•Conducted capital increase by NT$28,500,000, the registered capital after capital increase is NT$254,625,000.<br>•9月29日The Company was listed on September 29.<br>•Founded United Medical (B.V.I.) Corporation. |
| 2005 | •Invested indirectly in Medical Instrument Ltd. in China.<br>•Invested indirectly in Lianmao Medical Treatment Utensils Technology (Shanghai) Co., Ltd. in China.<br>•"United" U2 Total Knee System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 001396.<br>•"United" Ceramic Femoral Head has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 001397.<br>•"United" U2 CUP (HA coating) & CUP LINER have been awarded "Small and Medium Sized Enterprises Innovative Research Award" by Ministry of Economic Affairs.<br>•Conducted capital increase by NT$28,500,000, the registered capital after capital increase is NT$254,625,000. |
| 2006 | •"United" external fixator has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002092.<br>•Conducted capital increase by NT$85,000,000, the registered capital after capital increase is NT$339,625,000. |
| 2007 | •"United" slimfit anterior cervical plate system has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002134.<br>•"United" Century spinal system has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002254.<br>•Soft tissue fixation structure of proximal tibial component has been awarded utility model title patent rights by the State Intellectual Property Office of the People's Republic of China. License No.: ZL 200620007486.2.<br>•The surgery tools for operating UKNEE Total Knee System has been awarded utility model title patent rights by the State Intellectual Property Office of the People's Republic of China. License No.: ZL 200620139229.4.<br>•Conducted capital increase by NT$46,000,000, the registered capital after capital increase is NT$385,625,000.<br>•U2 Total Knee System has been awarded "National Biotechnology Medical Quality Award."<br>•Established United Orthopedic (U.S.A.) Corporation.<br>•Established the U.S. branch offices of the United Orthopedic Corporation USA. |

| | |
|---|---|
| 2008 | •"United" U-MOTION acetabular component has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002396.<br>•"UNITED" Round Mesh System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002498.<br>•"United" express lumbar cage system has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002512.<br>•"United" booster anterior cervical plate system has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002547.<br>•"United" express peek cage system has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002559.<br>•<u>Expansion mechanism for minimally invasive lumbar operation (invention) has been awarded utility patent by Republic of China. License No.: Utility I298248.</u><br>•Conducted capital increase by NT$38,000,000, the registered capital after capital increase is NT$423,625,000. |
| 2009 | •"United" U2 Total Knee System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002662.<br>•"United" Unify Femur Plate System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002676.<br>•"United" Ustar system - shoulder joint has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002706.<br>•Conducted capital increase by NT$40,000,000, the registered capital after capital increase is NT$463,625,000.<br>•Awarded Industrial Technology Advancement Award – Excellent Enterprise Innovation Award from the Ministry of Economic Affairs.<br>•Closed the U.S. branches of the United Orthopedic Corporation USA. |
| 2000 | •<u>A structural improved Orthopedic component has been awarded utility model title patent rights by the State Intellectual Property Office of the People's Republic of China. License No.: ZL 200920005650.X.</u><br>•<u>Thighbone shaft has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 7753961 B2.</u><br>•<u>Expansion mechanism for minimally invasive lumbar operation has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 7811230 B2.</u> |
| 2011 | •"United" Hip System-U2 Bipolar Implant has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 003187.<br>•"United" ceramic femoral head has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 003331. |

| | |
|---|---|
| | •"United" hip system has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 003335.<br>•Established Kaohsiung plant in Luzhu Science Park.<br>•Support mechanism for operation auxiliary tools have been awarded patent rights by United States Patent and Trademark Office. Patent No. US 8083196 B2. |
| 2012 | •"United" compression intramedullary pinning has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 003619.<br>•"United" Ustar system - hip joint has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 003713.<br>•Founded the U.S. Branch of UOC USA Inc.<br>•Artificial joint fixation mechanism has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 8172906 B2.<br>•Awarded Hsinchu Science Park "Innovative Product Award" and "International Exchange and Corporation Promotion Award."<br>•U2 Total Knee System has been awarded "Symbol of national Quality" award by Institute for Biotechnology and Medicine Industry.<br>•U2 Total Knee System has been awarded "Institute for Biotechnology and Medicine Industry Silver Award." |
| 2013 | •"United" CENTURY spinal system II has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 003969.<br>•"United" U-MOTION acetabular component II has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 003977.<br>•"United" Hip System II has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 004220.<br>•"United" BIOLOX OPTION Ceramic Femoral Head has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 004236.<br>•Conducted capital increase by NT$70,000,000, the registered capital after capital increase is NT$533,625,000.<br>•Issued NT$200 million worth of convertible bonds.<br>•U-Motion II has been awarded has been awarded "Taiwan Excellence Certification."<br>•U-Motion artificial hip joint system has been awarded "10th National Innovation Award." |
| 2014 | •"United" U2 Total Knee System - Model has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 004248.<br>•"United" FENCE anterior staple fixation system has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 004512.<br>•"United" E-XPE cemented cup has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 004678. |

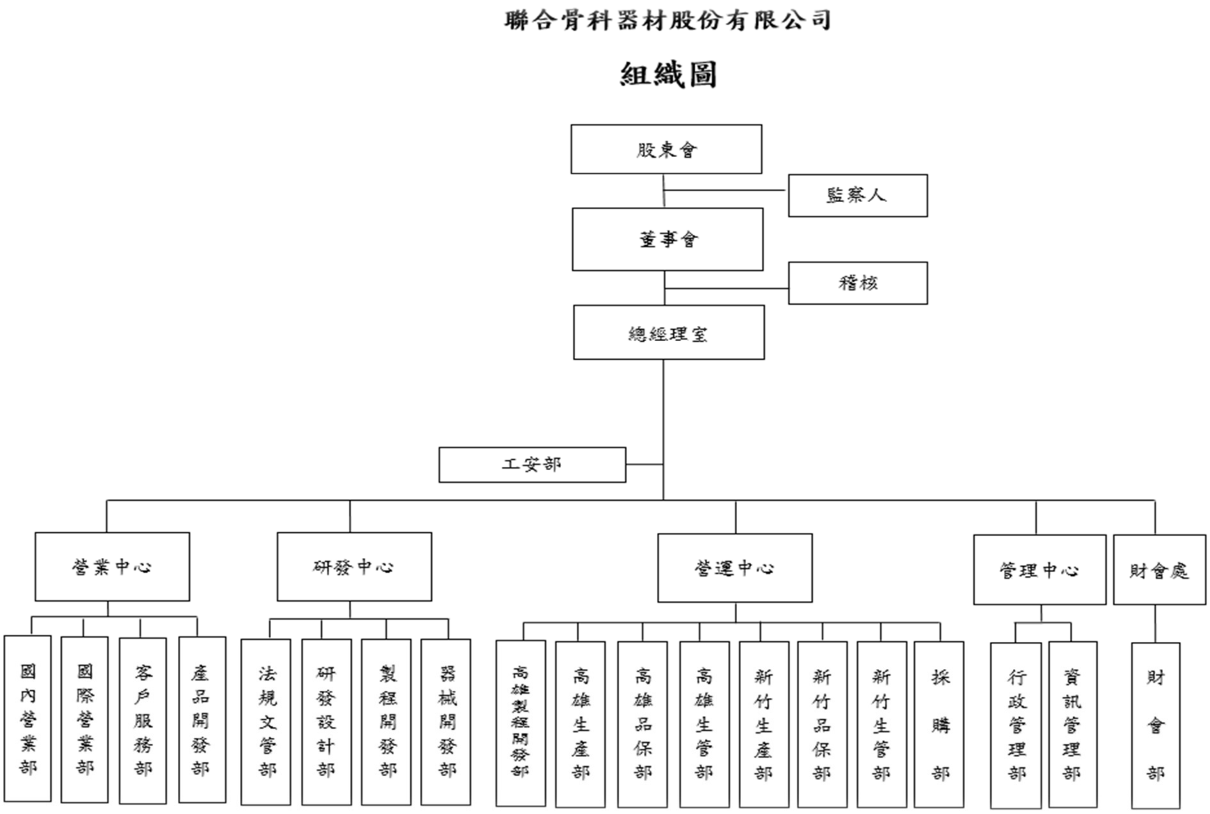
| | |
|---|---|
| | •"United" Slimfit anterior cervical plate system II has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 004697.<br>•"United" E-XPE cemented hip stem has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 004825.<br>•Plate components and their auxiliary positioning pieces have been awarded utility model title patent rights by the State Intellectual Property Office of the People's Republic of China. License No.: ZL 2013 2 0483547.2.<br>•Stacked tibial insert has been awarded utility model title patent rights by the State Intellectual Property Office of the People's Republic of China. License No.: ZL 2014 2 0085015.8.<br>•Stacked tibial insert has been awarded utility patent by Republic of China. License No.: Utility M479734.<br>•Connecting device of joint prosthesis has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 8721729 B1<br>•Femoral resection regulation has been awarded utility patent by Republic of China. License No.: Utility M495826. |
| 2015 | •"United" U2 Total Knee System - Full polyethylene tibial components have received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 005246.<br>•Femoral resection regulation has been awarded utility model title patent rights by the State Intellectual Property Office of the People's Republic of China. License No.: ZL 2014 2 0579814.0.<br>•Acetabular cup inserter has been awarded utility model title patent rights by the State Intellectual Property Office of the People's Republic of China. License No.: ZL 2012 1 0353196.3.<br>•Acetabular cup inserter has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 8926621 B2.<br>•Structure improvement of an orthopaedic implant of an artificial knee joint acetabular cup inserter has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 9044327 B2.<br>•Stack-up assembly for tibial insert trial<br>has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 9144495 B2.<br>•Acetabular cup inserter has been awarded patent certification that is issued by Republic of China. License No.: Invention I508698.<br>•Conducted capital increase by NT$128,000,000, the registered capital after capital increase is NT$712,128,680.<br>•Signed cooperation agreements with Shinva Medical Instrument Co., Ltd and New China Life Health Co., Ltd in China. |
| 2016 | •Disposed equities of three affiliated companies, namely United Medical Instrument Co., Ltd., Sinopharm United Medical Device Co., Ltd, and United Medical Technology (Shanghai) Co., Ltd.<br>•Invested and jointly founded Shinva United Orthopedic Corporation with Shinva Medical Instrument Co., Ltd and New China Life Health Co., Ltd. |

| | |
|---|---|
| | •Joint prosthesis has been awarded utility patent by Republic of China. License No.: Utility M521999.<br>•Femoral resection regulation has been awarded utility model title patent rights by the State Intellectual Property Office of the People's Republic of China. License No.: ZL 2016 2 0133047.X.<br>•Founded United Orthopedic Corporation (Suisse) SA and United Orthopedic Corporation (France) SAS in Switzerland and France, respectively.<br>•Founded United Biotech Japan Co., Ltd.<br>•Awarded "Golden Quality Medal" of 2016 Outstanding biotechnology industry.<br>•The multifunctional femur measurement and osteotomy tool of U2 UKNEE Total Knee System has been awarded the 13th National Innovation Award. |
| 2017 | •Purchased all shares of A-Spine Asia Co., Ltd.<br>•Awarded 2017 Taipei Biotech Awards - Go-Global Gold Medal Award<br>•Capital increased by NT$80,000,000 to NT$797,248,470.<br>•Issued NT$400 million of convertible bonds. |
| 2018 | The bipolar hip system passed the certification application for Japan. |

# Chapter 3 Corporate Governance Report

## I. Organization

### (I) Organizational Structure




| | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United Orthopedic Corporation Organizational Chart | | | | | | | | | | | | | | | | | | |
| | | | | | | | Shareholders' Meeting | | | | Supervisors | | | | | | | |
| | | | | | | | Board of Directors | | | | Auditing | | | | | | | |
| | | | | Department of Construction Safety | | | General Manager's Office | | | | | | | | | | | |
| Operations Center | | | | Research and Development Center | | | | Operations Center | | | | | | | | Control Center | | Department of Finance and |
| Department of Domestic Operations | Department of International Operations | Department of Customer Service | Department of Product Development | Department of Regulations and Document | Department of Research and Design | Department of Manufacturing Development | Development of Machinery Development | Department of Manufacturing Development at Kaohsiung | Department of Production at Kaohsiung | Department of Quality Assurance at Kaohsiung | Department of Production at Kaohsiung | Department of Production at Hsinchu | Department of Quality Assurance at Hsinchu | Department of Production Control at Hsinchu | Procurement Department | Department of Administration | Department of Information Management | Department of Finance and Accounting |

## (II) Responsibilities and Functions of Major Departments

| Department | Main Functions |
|---|---|
| General Manager's Office | Strategic planning, developing and promoting operational guidelines and targets, planning of operating meetings and follow up and overseeing resolutions, and auditing of various management decisions. |
| Auditing Office | Auditing of the business, financial, and operating conditions of the entire Company. |
| Department of Construction Safety | Develop, coordinate, and review the measures over labor safety and health policies, management, education and training, and operation environment. Generate proposals for safety and health measures, publish inspection results of automatic inspection of safety and health audit, of machinery, equipment, raw materials, materials, hazard prevention measures, and of occupational hazards. Other relevant public safety and safety, and health management matters. |
| Department of Finance and Accounting | Management and auditing of accounting, taxation and cost calculation of the Group, preparation and control of the final accounts of the Company's operational budget, shareholding and financial planning and execution of the Group. |
| Control Center | The preparation of the regulations of the company on personnel management, planning and implementation of education and training, maintenance of fixed assets, maintenance of public facilities, purchase of security, fire protection, security business, purchase of public goods and related insurance matters.<br>Planning, development and maintenance management of the information system. |
| Operations Center | Responsible for marketing and promotion of business for domestic and external orthopedic products, surgical instruments, and OEM. Moreover, deal with the orders of the customers, contracts, and complaints, review of the customers' credit status, and track accounts. Furthermore, a solid control over the timing of delivery, control over purchases and refunds, check inventory periodically, and control the inventory, stocktaking, and testing of machinery tools.<br>Responsible for proposal and tracking of execution of product marketing plans; planning and participating in domestic and international exhibitions; analyzing, assessing, and promoting domestic and foreign markets; developing new products and overseeing the progress; holding training for domestic and foreign distribution business products.<br>Responsbile for establishing internal product databases and the holding internal educational training; publishing development plans for new products and assisting in writing designing principles of new products; collecting clinical results for the Company's products and publishing clinical reports for the Company's products; discussing the rationality and the possibility of publication with the consulting doctors and assisting with clinical discussion and solutions. |
| Research and Development Center | The planning, design and development, theoretical research, validation, model validation, model production, CAM programming, engineering and production management, product testing, material quality standards, heat treatment specifications of new products.<br>Establishing the product production process management, process quality inspection, mechanical maintenance, and operating standards. The development, manufacture, and maintenance of surgical instruments.<br>Responsible for product compliance confirmation, product marketing authorization, patent and trademark application. Coding, registering, and issuance of documents and control and preservation of documents; testing and verifying plans with regard to product developing; testing and verification of product development-related tests. |

| | |
|---|---|
| Operations Center | Execution, management, and control of production plans.<br>Forging, casting, titanium beads sintering, titanium and HA plasma spraying technology research and development, development of operational standards and production plans for the implementation of management control.<br>Production planning as well as scheduling development and maintenance; production status control and feedback; material requirements and procurement planning and maintenance; warehousing control, warehouse control, and maintenance of raw materials and forgings, castings and surface titanium beads sintered products, titanium surface coating, surface titanium, and HA composite spray.<br>The quality assurance and formulation of inspection standards regarding raw materials purhcased, first sample, and final manufacturing; customer complaints processing; SPC application planning; measurement and calibration of equipment management; ISO quality management system implementation and maintenance.<br>Businesses such as purchasing international and domestic raw materials for plants and exporting of OEM products.<br>Maintenance and management of plant's facility, integration of project-based constructions and planning, maintenance and cleaning of the machineries, and other matters with regard to the management of plants. |

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

### (I) Directors and Supervisors

(1) Information of Directors and Supervisors

April 21, 2019

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Term | Date First Elected | Shares held upon Election | | Shares currently held | | Shares Currently Held by Spouse and/or Minor Children | | Shares Held in the Name of Other Persons | | Education and Work Experience | Positions concurrently held at other companies | Any executive officer, director, or supervisor who is a spouse or relative within the second degree of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Number of Shares | Percentage | Number of Shares | Percentage | Number of Shares | Percentage | Number of Shares | Percentage | | | Title | Name | Relationship |
| President and General Manager | Republic of China | Lin, Yan-Shen | Male | June 20, 2017 | 3 years | March 5, 1993 | 2,150,000 | 3.00% | 2,512,000 | 3.12% | 510,000 | 0.63% | 0 | 0 | Public Relations, Shih Hsin University<br>Manager of 3M, USA3M<br>President, Chuan-Yi Investment Inc.<br>Director, Chuan-Yi Investment Inc. | Supervisor, Taiwan Home Care Co.,Ltd<br>Person in charge of Lemax Co., Ltd<br>Person in charge of United Medical (B.V.I.) Corporation<br>Person in charge of UOC America Holding Corporation<br>Person in charge of UOC USA INC.<br>Vice President, Shinva United Orthopedic Corporation<br>President, A-Spine Asia Co., Ltd.<br>Director of United Biotech Japan Co., Ltd.<br>Person in charge of UOC Europe Holding SA | Director | Lin, Chun-Sheng | Brother |
| Director | Republic of China | Lin, Chun-Sheng | Male | June 20, 2017 | 3 years | June 13, 2008 | 1,758,629 | 2.45% | 1,905,743 | 2.37% | 60,000 | 0.07% | 0 | 0 | Industrial Management Department, Freshwater Industry<br>Director, Chuan-Yi Investment Inc.<br>Vice Chairman, United Orthopedic Corporation<br>Vice Chairman, UMP Medical Device Co., Ltd. | Director, United Biomech Japan Co., Ltd.<br>Director, A-Spine Asia Co., Ltd. | Chairman | Lin, Yan-Shen | Brother |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Term | Date First Elected | Shares held upon Election | | Shares currently held | | Shares Currently Held by Spouse and/or Minor Children | | Shares Held in the Name of Other Persons | | Education and Work Experience | Positions concurrently held at other companies | Any executive officer, director, or supervisor who is a spouse or relative within the second degree of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Number of Shares | Percentage | Number of Shares | Percentage | Number of Shares | Percentage | Number of Shares | Percentage | | | Title | Name | Relationship |
| Director | Republic of China | Hau, Hai-Yen | Male | June 20, 2017 | 3 years | May 15, 1997 | 661,714 | 0.92% | 698,646 | 0.87% | 0 | 0 | 0 | 0 | Doctor of Philosophy in Electrical Engineering, Purdue University<br>Associate Professor of Electrical Engineering, National Taiwan University<br>Deputy General Manager, Financial business group of the Institute for Information Industry<br>President, Integrate Information System Co. Ltd. | Director, Sincere Medical Imaging Co. Ltd.<br>Independent director, Walton Advanced Engineering, Inc.<br>Director, ENE Technology Inc. | None | None | None |
| Director | U.K | Ng Chor Wah Patrick | Male | June 20, 2017 | 3 years | June 16, 2005 | 1,180,076 | 1.64% | 1,397,139 | 1.74% | 0 | 0 | 0 | 0 | The Hong Kong Polytechnic University<br>Country Manager, Medtronic Sofamor Danek China<br>Executive Director, Schwartz Group<br>Vice President, Stryker Pacific Ltd<br>Director, Onlycare Medical Company Ltd. | Person in Charge, United Medical Instrument Co., Ltd<br>Person in Charge, United Medical Technology (ShangHai) Co.,Ltd.<br>Director, Onlycare Medical Company Ltd<br>Director, Shinva United Orthopedic Corporation<br>Director, Super Joint Engineering Limited | None | None | None |
| Director | Republic of China | Chi-Yi Investment Co. Ltd. | - | June 20, 2017 | 3 years | June 13, 2007 | 1,029,312 | 1.43% | 665,417 | 0.83% | 0 | 0 | 0 | 0 | None | None | None | None | None |
| Representative of the Corporate Director | Republic of China | Lee, Chi-Fung | Female | June 20, 2017 | 3 years | June 13, 2007 | 0 | 0 | 450,000 | 0.56% | 0 | 0 | 0 | 0 | Education for Librarianship, National Taiwan University<br>Project Manager, China Management Consultant Inc. | Chi-Yi Investment Co. Ltd. | None | None | None |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Term | Date First Elected | Shares held upon Election | | Shares currently held | | Shares Currently Held by Spouse and/or Minor Children | | Shares Held in the Name of Other Persons | | Education and Work Experience | Positions concurrently held at other companies | Any executive officer, director, or supervisor who is a spouse or relative within the second degree of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Number of Shares | Percentage | Number of Shares | Percentage | Number of Shares | Percentage | Number of Shares | Percentage | | | Title | Name | Relationship |
| Indedpent Director | Republic of China | Wang, Yueh-Cheng | Male | June 20, 2017 | 3 years | June 13, 2008 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | MBA, National Chengchi University<br>Full-Time, Part-Time Instructor for Business Management, Soochow University<br>General Manager, Primasia Securities Co., Ltd.<br>Director and Deputy General Manager, Vigor International Inc. | None | None | None | None |
| Indedpent Director | Republic of China | Lee, Chun-Hsien | Male | June 20, 2017 | 3 years | June 17, 2003 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | MBA, The City University of New York<br>Officer, Credit Department of Bank of Taiwan<br>Director of Department of Investment Management and Accounting Tax, Macronix International Co., Ltd<br>General Manager, Director, Biomorphic Microsystems Corporation | Senior Director of Department of Business Development Finance, TSMC | None | None | None |
| Supervisor | Republic of China | Wong, Chi-Yin | Male | June 20, 2017 | 3 years | June 23, 2014 | 758,993 | 1.06% | 804,993 | 1.00% | 0 | 0 | 0 | 0 | Medical Studies, National Defense Medical Center<br>Director of Orthopedics Department, Kaohsiung Veterans General Hospital<br>Attending Physicians, Taipei Veterans General Hospital | Attending Physicians of Orthopedics Department, YUANHOSP | None | None | None |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Term | Date First Elected | Shares held upon Election | | Shares currently held | | Shares Currently Held by Spouse and/or Minor Children | | Shares Held in the Name of Other Persons | | Education and Work Experience | Positions concurrently held at other companies | Any executive officer, director, or supervisor who is a spouse or relative within the second degree of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Number of Shares | Percentage | Number of Shares | Percentage | Number of Shares | Percentage | Number of Shares | Percentage | | | Title | Name | Relationship |
| Supervisor | Republic of China | Wang, Ching-Hsiang | Male | June 20, 2014 | 3 years | June 17, 2004 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Master of Accounting, Soochow University<br>Partner, Solomon & Co., CPAs<br>Convenor of Finance and Taxation Commission, Kaohsiung City Association of Small & Medium Enterprises<br>Instructor, Shih Chien University Part-Time Insturctor of Accounting, Tunghai University | Person in Charge and Partner of Yangtze CPAs & CO.<br>Director, Hua De Alliance<br>Independent Director, Full Wang International Development Co., Ltd.<br>Independent director, Strong H Machinery Technology Cayman Inc. | None | None | None |
| Supervisor | Republic of China | Chen, Li-Ju | Female | June 20, 2017 | 3 years | June 19, 2009 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Accounting, National Chengchi University<br>GMBA, National Chengchi University<br>Chairman, Ping Nan CATV Co., Ltd.<br>Supervisor, Eastern Broadcasting Co., Ltd.<br>Supervisor, HANROC Project Finance<br>Consultant, Carlyle Asia Investment Advisors Limited<br>General Manager of Administrative Finance, Melchers Trading GMBH (Taiwan Branch) | Person in Charge, Li-Ru Chen Accounting Firm | None | None | None |

(2) Major shareholders of institutional shareholders:

①Major shareholders of institutional shareholders

April 21, 2019

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

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

(3) Professional knowledge, independency, and work experience that are required by the business of the Directors or Supervisors and qualified for the following items:

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

Note 1: The number of rows are adjusted based on the number of entries.

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

(1) Not an employeeof the Company or any of its affiliates.
(2) Not a director or supervisor of the Company of any of its affiliates (not limited to independent directors appointed by the Company, its parent company or subsidiaries in compliance with this Act or local regulations).
(3) Not a natural-person shareholder who holds more than 1% of the shares issued or is ranked top 10 in terms of the total quantity of shares held, including the shares held in the name of the person's spouse, minor children, or others.
(4) Not a a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of any of the persons listed in Conditions (1) to (3).
(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds more than 5% of the total number of shares issued by the Company or is ranked top 5 in terms of quantity of shares held.
(6) Not a director, supervisor, manager, or a shareholder who holds more than 5% of shares at a company or institution that has a financial or business relationship with the Company.
(7) Not a professional, sole proprietor, partner, or a company that offers business administration, legal, financing, or accounting services or consulting services for the Company, and not an owner, partner, director (member of the governing board), supervisor (member of the supervising board), manager, or a spouse of any of the above-mentioned roles at a company that offers these services for the Company. 7. However, members of Remuneration Committee who executes their responsibility in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter are not subject to this provision.
(8) Not a spouse or a relative within the second degree of kinship to any other director of the Company.
(9) Not under any conditions set out in Article 30 of the Company Act.
(10) Not elected as a governmental, corporate entity, or its representative as set out in Article 27 of the Company Act.

## (II) General Manager, Deputy General Managers, Assistant Managers, and Heads of Various Departments and Branches

April 21, 2019

| Title (Note 1) | Nationality | Name | Gender | Date Elected | Shares held | | Shares held by spouse and/or minor children | | Shares held in the name of other persons | | Main education and work experience (Note 2) | Positions concurrently held at other companies | Managers who have spousal or second-degree kinship within the Company | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of shares | Percentage | Number of shares | Percentage | Number of shares | Percentage | | | Title | Name | Relationship |
| General Manager | Republic of China | Lin, Yan-Shen | Male | June 30, 2008 | 2,512,000 | 3.12% | 510,000 | 0.63% | 0 | 0 | Public Relations, Shih Hsin University<br>Manager of 3M, USA3M<br>President, Chuan-Yi Investment Inc.<br>Director, Chuan-Yi Investment Inc. | Supervisor, Taiwan Home Care Co.,Ltd<br>Person in charge of Lemax Co., Ltd<br>Person in charge of United Medical (B.V.I.) Corporation<br>Person in charge of UOC America Holding Corporation<br>Person in charge of UOC USA INC.<br>Vice President, Shinva United Orthopedic Corporation<br>President, A-Spine Asia Co., Ltd.<br>Director of United Biotech Japan Co., Ltd.<br>Person in charge of UOC Europe Holding SA | None | None | None |
| Deputy General Manager and Director of Department of Operations Center | Republic of China | Liau, Jiann-Jong | Male | July 1, 2016 | 92,293 | 0.11% | 0 | 0 | 0 | 0 | Graduate School of Engineering, School of Technology and Engineering of National Yang Ming University<br>Project Manager, United Orthopedic Corporation<br>Assistant Professor, National Taiwan University | Director, A-Spine Asia Co., Ltd. | None | None | None |
| Deputy General Manager and Director of Department of Operating Center | Republic of China | Peng, Yu-Hsing | Female | January 1, 2016 | 76,933 | 0.10% | 0 | 0 | 0 | 0 | Statistics, Tamkang University<br>Financial Manager, Chuan-Yi Investment Inc.<br>President, Taiwan Home Care Co.,Ltd | Director, A-Spine Asia Co., Ltd.<br>Director of United Biotech Japan Co., Ltd. | None | None | None |
| Director, Research and Developing Center | Republic of China | Ho, Fang-Yuan | Female | July 1, 2016 | 14,059 | 0.02% | 37,167 | 0.05% | 0 | 0 | Graduate Institute of Materials Science & Engineering, National Taiwan University<br>Assistant Researcher, Mackay Memorial Hospital | None | None | None | None |
| Director, Operations Center | Republic of China | Chou, Chin-Lung | Male | July 1, 2016 | 48,805 | 0.06% | 0 | 0 | 0 | 0 | Mechanical Engineering Ph.D, National Cheng Kung University<br>Metal Industries Research & Development Center - Vice Director of Department of Medical Equipment and Optoelectronic Equipment<br>Secretary-general, Taiwan Forging Association | None | None | None | None |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Director, Department of Finance and Accounting | Republic of China | Teng, Yuan-Chang | Male | October 3, 2016 | 0 | 0.00% | 0 | 0 | 0 | 0 | Business Administration, Tamkang University<br>University of Illinois<br>Manager of Finance Department, Visera Techonologies Co., Ltd.<br>Assistant General Manager, Pihsiang Machinery MFG. Co., Ltd.<br>Supervisor, A-SPINE Asia Co., Ltd. | None | None | None | None |

Note 1: Shall include information regarding General Manager, Deputy General Managers, Assistant Managers, heads of various departments and branches. Persons who hold positions equivalent to General Manager, Deputy General Managers, or Assistant Managers shall also be disclosed, regardless of job title.

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

## III. Remuneration of Directors, Supervisors, President, and Vice-Presidents

(I) Companies may choose to adopt a summary manner, along the remuneration levels, with the names disclosed or the method of disclosing the individual names and their remuneration: The Company shall adopt the former method.

(1) Remuneration of directors (including independent directors) (summary of matching level)

Unit: NT$1,000; 2018

| Title | Name | Remuneration of directors: Remuneration (A) (Note 2): CCSB | Remuneration of directors: Remuneration (A) (Note 2): Companies in the consolidated financial statements (Note 7) | Remuneration of directors: Retirement Pension (B): CCSB | Remuneration of directors: Retirement Pension (B): Companies in the consolidated financial statements (Note 7) | Remuneration of directors: Remuneration of Directors (C) (Note 3): CCSB | Remuneration of directors: Remuneration of Directors (C) (Note 3): Companies in the consolidated financial statements (Note 7) | Remuneration of directors: Business execution fees (D) (Note 4): CCSB | Remuneration of directors: Business execution fees (D) (Note 4): Companies in the consolidated financial statements (Note 7) | The ratio of total amount of A, B, C, D to the NIAT (Note 10): CCSB | The ratio of total amount of A, B, C, D to the NIAT (Note 10): Companies in the consolidated financial statements (Note 7) | Remuneration paid to concurrent employees: Salaries, bonuses, and special expenses (E) (Note 5): CCSB | Remuneration paid to concurrent employees: Salaries, bonuses, and special expenses (E) (Note 5): Companies in the consolidated financial statements (Note 7) | Remuneration paid to concurrent employees: Retirement pension (F): CCSB | Remuneration paid to concurrent employees: Retirement pension (F): Companies in the consolidated financial statements (Note 7) | Remuneration paid to concurrent employees: Employee remuneration (G) (Note 6): CCSB: Cash | Remuneration paid to concurrent employees: Employee remuneration (G) (Note 6): CCSB: Stock | Remuneration paid to concurrent employees: Employee remuneration (G) (Note 6): Companies in the consolidated financial statements (Note 7): Cash | Remuneration paid to concurrent employees: Employee remuneration (G) (Note 6): Companies in the consolidated financial statements (Note 7): Stock | Proportion of NIAT after summing items A, B, C, D, E, F, and G (Note 10): CCSB | Proportion of NIAT after summing items A, B, C, D, E, F, and G (Note 10): Companies in the consolidated financial statements (Note 7) | Whether or not the person receives remuneration from other non-subsidiary companies that the Company has invested in (Note 11) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Chairman | Lin, Yan-Shen | 0 | 0 | 0 | 0 | 4,256 | 4,256 | 960 | 960 | 4.1% | 4.1% | 7,320 | 7,320 | 0 | 0 | 869 | 0 | 869 | 0 | 10.5% | 10.5% | None |
| Director | Lin, Chun-Sheng | | | | | | | | | | | | | | | | | | | | | |
| Director | Hau, Hai-Yen | | | | | | | | | | | | | | | | | | | | | |
| Director | Chi-Yi Investment Co. Ltd. Lee, Chi-Fung | | | | | | | | | | | | | | | | | | | | | |
| Director | Ng Chor Wah Patrick | | | | | | | | | | | | | | | | | | | | | |
| Indedpent Director | Wang, Yueh-Cheng | | | | | | | | | | | | | | | | | | | | | |
| Indedpent Director | Lee, Chun-Hsien | | | | | | | | | | | | | | | | | | | | | |

*In addition to what is disclosed above, the remuneration paid to the directors in the most recent year for providing services (e.g. serving as a non-employee consultant) to the companies listed in this financial report:

Executive Compensations by Level

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

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

Note 2: Remuneration paid to directors in the most recent year (including salaries, job remuneration, severance, bonuses, and performance fees).

Note 3: Remuneration paid to directors in the most recent year approved by the Board of Directors.

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

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

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

Note 7: Total remuneration in the various items paid out to the Company's directors by all companies (including this Company) listed in the consolidated statement shall be disclosed.

Note 8: For the total remuneration in various items paid out to the Company's directors, the name of each director shall be disclosed in the corresponding range of the remuneration.

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

Note 10: Net income after tax refers to the net income after tax in the most recent year. If IFRS is adopted, the net income after tax refers to the net income stated in the parent company only financial reports or individual financial reports of the most recent year.

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

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

c. Remuneration in this case shall refer to remunerations, considerations (including remunerations for employees, directors, or supervisors), business execution fees, and other related payments received by the director of the Company for serving as a director, supervisor, or managerial officer at other non-subsidiary companies in which the Company has invested.

* The content of the remunerations disclosed in this table is calculated based on a concept different from the concept of income stipulated in the Income Tax Act. The content of this table is provided for the purpose of information disclosure rather than taxation.

## (2) Remuneration of supervisors

Unit: NT$1,000; 2018

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="6">Remuneration of supervisors</th><th colspan="2" rowspan="2">Proportion of NIAT after summing items A, B, and C (Note 8)</th><th rowspan="3">Whether the person receives remuneration from other non-subsidiary companies in which the Company has invested (Note 9)</th></tr>
<tr><th colspan="2">Base Compensation (A) (Note 2)</th><th colspan="2">Compensation (B) (Note 3)</th><th colspan="2">Business execution fees (C) (Note 4)</th></tr>
<tr><th>CCSB</th><th>All companies listed in this financial report (Note 5)</th><th>CCSB</th><th>All companies listed in this financial report (Note 5)</th><th>CCSB</th><th>All companies listed in this financial report (Note 5)</th><th>CCSB</th><th>All companies listed in this financial report (Note 5)</th></tr>
<tr><td>Supervisors</td><td>Wang, Ching-Hsiang</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">1,440</td><td rowspan="3">1,440</td><td rowspan="3">1.1%</td><td rowspan="3">1.1%</td><td rowspan="3">0</td></tr>
<tr><td>Supervisors</td><td>Chen, Li-Ju</td></tr>
<tr><td>Supervisors</td><td>Wong, Chi-Yin</td></tr>
</table>

Executive Compensations by Level

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

Note 1: The name of supervisors shall be listed separately (names of institutional shareholders and representatives shall be listed separately) and payments shall be disclosed collectively.

Note 2: Supervisor's remuneration in the most recent year (including supervisor's salary, executive differential pay, severance, various bonuses, and performance fees).

Note 3: Remuneration paid to directors in the most recent year approved by the Board of Directors.

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

Note 5: Total remuneration in various items paid out to the Company's supervisors by all companies (including the Company) listed in the consolidated statement shall be disclosed.

Note 6: For the total remuneration in various items paid out to the Company's supervisors, the name of each supervisor shall be disclosed in the corresponding range of the remuneration.

Note 7: The total remuneration of all items that are paid to every supervisor of the Company by all companies (including the Company) listed in the consolidated statement shall be disclosed in accordance with the corresponding range of the remuneration.

Note 8: Net income after tax (NIAT) refers to the net income after tax in the most recent year. If IFRS is adopted, the NIAT refers to the net income stated in the parent company only financial reports or individual financial reports of the most recent year.

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

b. If a supervisor receives remuneration from other non-subsidiary companies in which the Company has invested, the said remuneration shall be included in Column D in the remuneration range table. The name of the column shall also be changed to “All investments in other companies".

c. Remuneration in this case shall refer to remunerations, considerations (including remunerations for employees, directors, or supervisors), business execution fees, and other related payments received by the supervisor of the Company for serving as a director, supervisor, or managerial officer at other non-subsidiary companies in which the Company has invested.

＊ The content of the remunerations disclosed in this table is calculated based on a concept different from the concept of income stipulated in the Income Tax Act. The content of this table is provided for the purpose of information disclosure rather than taxation.

(3) Remuneration for the General Manager and Deputy General Managers

Unit: NT$1,000; 2018

| Title | Name | Remuneration (A) (Note2) | | Retirement Pension (B) | | Bonuses and special expenses (C) (Note 3) | | Profit Sharing Employee Bonus (D) (Note 4) | | | | The ratio (%) of total amount of A, B, C, D to the NIAT (Note 8) | | Whether or not the person receives remuneration from other non-subsidiary companies in which the Company has invested (Note 9) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | CCSB | All companies listed in this financial report (Note 5) | CCSB | All companies listed in this financial report (Note 5) | CCSB | All companies listed in this financial report (Note 5) | CCSB | | All companies listed in this financial report (Note 5) | | CCSB | All companies listed in this financial report (Note 5) | |
| | | | | | | | | Cash | Stock | Cash | Stock | | | |
| General Manager | Lin, Yan-Shen | 13,476 | 13,476 | 0 | 0 | 0 | 0 | 1,892 | 0 | 1,892 | 0 | 12.0% | 12.0% | None |
| Vice President | Liau, Jiann-Jong | | | | | | | | | | | | | |
| Vice President | Peng, Yu-Hsing | | | | | | | | | | | | | |

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

Executive Compensations by Level

| Remuneration Brackets of General Managers and Deputy General Managers | Name | |
|---|---|---|
| | The Company (Note 6) | All companies in the consolidated statement (Note7) E |
| Less than NT$2,000,000 | None | None |
| NT$ 2,000,000 (included)-NT$ 5,000,000 | Liau, Jiann-Jong, Peng, Yu-Hsin | Liau, Jiann-Jong, Peng, Yu-Hsin |
| NT$ 5,000,000 (include)-NT$ 10,000,000 | Lin, Yan-Shen | Lin, Yan-Shen |
| NT$ 10,000,000 (included)-NT$ 15,000,000 | None | None |
| NT$ 15,000,000 (included)-NT$ 30,000,000 | None | None |
| NT$ 30,000,000 (included)-NT$ 50,000,000 | None | None |
| NT$ 50,000,000 (included)-NT$ 100,000,000 | None | None |
| More than NT$100,000,000 | None | None |
| Total | 3 persons | 3 persons |

Note 1: Names of the President and Vice Presidents shall be disclosed separately and grouped into different remuneration levels. If a director also serves as a general manager or deputy general manager, he/she shall fill in this form and form (1-1) or (1-2) above.

Note 2: Remuneration, executive differential pay, and severance pay to the President and Vice Presidents.

Note 3: Cash and non-cash compensations to the President and Vice Presidents in the most recent year, including bonus, reward, reimbursement of expenses, special allowances, various subsidies, housing, and use of vehicle. If housing, vehicle or other means of transportation, or personal expenses are provided, the nature and cost of the assets provided, the rental calculated based on the actual cost or the fair market value, fuel, and other payments shall be disclosed. If a driver is provided, please note the remuneration paid to such a driver. However, such remuneration shall not be included. Remunerations disclosed in accordance with IFRS 2 (Share-based Payment), including employee stock options, employee restricted new stock and shares subscribed from cash capital increase, shall also be calculated as part of the compensations.

Note 4: Employee remunerations (including shares and cash) given to the General Manager and Deputy General Manager approved by the Board of Directors in the most recent year shall be disclosed. But, if an estimated figure cannot be derived, this year's budgeted compensations shall be calculated based on last year's actual compensations and Schedule1-3 shall be filled out. Net income after tax (NIAT) refers to net income after tax in the most recent fiscal year. For those adopted IFRS, NIAT refers to net income after tax disclosed by each individual company or in individual financial reports of the most recent year.

Note 5: Total remuneration paid out to the Company's General Manager and Deputy General Manager by all companies (including CCSB) listed in the consolidated statement shall be disclosed.

Note 6: Compensations paid to the President and Vice Presidents by CCSB - Names of the President and Vice Presidents are disclosed in the corresponding range.

Note 7: For the remunerations paid to the General Manager and Deputy General Manager by all companies included in the consolidated statements (including CCSB), the names of the General Manager and Deputy General Manager shall be disclosed in the corresponding range.

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

Note 9: a. The remuneration that the Company's general manager and deputy general manager receives from other non-subsidiary companies in which the Company has invested shall be disclosed in this column.

b. If the Company's General Manager and Deputy General Manager receive remunerations from non-subsidiaries companies in which the Company has invested, the remunerations received by the General Manager and Deputy General Manager shall be included in Column E of the table and the column shall be renamed as "All investments in other companies".

c. Remuneration in this case shall refer to remunerations, considerations (including remunerations for employees, directors, or supervisors), business execution fees, and other related payments received by the General Managers or Deputy General Managers of the Company for serving as a director, supervisor, or managerial officer at other non-subsidiary companies in which the Company has invested.

* The content of the remunerations disclosed in this table is calculated based on a concept different from the concept of income stipulated in the Income Tax Act. The content of this table is provided for the purpose of information disclosure rather than taxation.

(4) Names of managerial officers who allocate employee's considerations and status of allocation

Year of 2018

| | Title | Name | Stock | Cash | Total | The ratio (%) of total amount to the NIAT |
|---|---|---|---|---|---|---|
| Manager | Chairman | Lin, Yan-Shen | 0 | 3,141 | 3,141 | 2.5% |
| | Vice President | Liau, Jiann-Jong | | | | |
| | Vice President | Peng, Yu-Hsing | | | | |
| | Director, Operations Center | Chou, Chin-Lung | | | | |
| | Director, Research and Developing Center | Ho, Fang-Yuan | | | | |
| | Director, Department of Finance and Accounting | Teng, Yuan-Chang | | | | |

Note 1: Individual names and titles shall be disclosed, but profit received may be disclosed as total sum.

Note 2: Employee remunerations (including shares and cash) given to the General Manager and Deputy General Manager approved by the Board of Directors in the most recent year shall be disclosed. But, if an estimated figure cannot be derived, this year's budgeted compensations shall be calculated based on last year's actual compensations. Net income after tax (NIAT) refers to after-tax net income of the most recent fiscal year. For those adopted the IFRS, NIAT refers to after-tax net income of each individual company or individual financial reports disclosed in the most recent fiscal year.

Note 3: The term "executive" refers to the positions listed below, as provided in the Financial Supervisory Commission Memorandum No. 0920001301 of March 27, 2013:92年3月27日

(1) General Manager and its equivalent

(2) Deputy General Manager and its equivalent

(3) Assistant Manager and its equivalent

(4) Chief of Finance

(5) Chief of Accounting

(6) Other personnel with the authority to manage company affairs and signing authority.

Note 4: If the Directors, General Manager, or Deputy General Managers in the Company receive employee considerations (including shares and cash), they shall fill out Schedule 1-2 and this form as well.

(II) For companies that exhibit one of the following matters, the remuneration of individual director and supervisor shall be disclosed:

(1) For each individual company or individual financial report in the most recent two years that exhibit net losses after tax, the remuneration of individual director and supervisor shall be disclosed. However, for each individual company or individual financial report in the most recent two years that exhibit net incomes after tax and that are able to make up for losses are not subject to the restriction: Not applicable.

(2) For Directors who do not hold sufficient shares for three consecutive months in the most recent year, the remuneration of the individual director shall be disclosed; For Supervisors who do not hold sufficient shares for three consecutive months in the most recent year, the remuneration of the individual supervisor shall be disclosed: This does not apply to the Company.

(3) For Directors and Supervisors whose pledge ratio is higher than 50% in any of the three months of the most recent year, the remuneration of the directors and supervisors whose pledge ratio is higher than 50% in the particular month shall be disclosed: This does not apply to the Company.

(4) If the total amount of remuneration received by all of the directors and supervisors in their capacity as directors or supervisors of all of the companies listed in the financial reports exceeds 2 percent of the net income after tax, and the remuneration received by any individual director or supervisor exceeds NT$15 million, the company shall disclose the remuneration paid to that individual director or supervisor: This does not apply to the Company.

(III) Compare and analyze the total remuneration as a percentage of net income stated in the parent company only financial reports or individual financial reports, paid by the Company and by all consolidated entities for the most recent 2 fiscal years to each of the Company's directors, supervisors, general managers, and assistant general managers, and describe the policies, standards, and packages for payment of remuneration, the procedures for determining remuneration, and its linkage to business performance and future risk exposure.

1. The total remuneration as a percentage of net income stated in the parent company only financial reports or individual financial reports, paid by the Company and by all consolidated entities for the most recent 2 fiscal years to each of the Company's directors, supervisors, general managers, and assistant general managers are as the following:

| Title | The ratio of remuneration of the Directors, Supervisors, General Manager, and Deputy General Manager in 2017 to the net income stated in the parent company only financial reports or | The ratio of remuneration of the Directors, Supervisors, General Manager, and Deputy General Manager paid by all the companies in consolidated statement in 2017 to the net income stated in the parent company only financial reports | Analysis of the ratio of the remuneration of the Directors, Supervisors, General Manager, and Deputy General Manager in 2018 to the net income stated in the parent company only financial reports or individual financial reports | Analysis of the ratio of the remuneration of the Directors, Supervisors, General Manager, and Deputy General Manager paid by all of the companies in consolidated statement in 2018 to the net income stated in the parent company only financial reports |
|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| | | individual financial reports | or individual financial reports | | or individual financial reports |
| Director | First 4 items | 5.5% | 5.5% | 4.1% | 4.1% |
| | First 7 items | 11.1% | 11.1% | 10.5% | 10.5% |
| Supervisors | | 1.1% | 1.1% | 1.1% | 1.1% |
| President and Vice Presidents | | 10.4% | 10.4% | 12.0% | 12.0% |

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

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

   (2) The remuneration for the General Manager and Deputy General Manager is paid in accordance with the remuneration level in the industry, the functionality of their position, and their contribution made to the Company's operating objectives.

   (3) The procedure for determining the remuneration in the Company is based on the standards in the industry; in addition, performance bonus is distributed in accordance with the operational performance and personal contribution.

   (4) The relevance of future risks: The Company has purchased liability insurance for the Directors, Supervisors and managerial officers. The Company adopts a conservative approach in financial operations. There are no high risks and high leveraged investments over the past two years, and no funds have been loaned to others. Therefore, there are no risks arising from the situation.

## IV. Implementation of Corporate Governance

### (I) Operations of Board of Directors

The Board met six (6) times (A) in the most recent year. The table below shows the attendance of Directors and Supervisors:

| Title | Name (Note 1) | Actual attendance in person (B) | Attendance by proxy | Rate of actual attendance in person (%)【B/A】(Note 2) | Remark |
|---|---|---|---|---|---|
| Chairman | Lin, Yan-Shen | 6 | 0 | 100% | None |
| Director | Lin, Chun-Sheng | 6 | 0 | 100% | None |
| Director | Hau, Hai-Yen | 5 | 0 | 83.3% | None |
| Director | Ng Chor Wah Patrick | 4 | 0 | 66.7% | None |
| Directors | Chi-Yi Investment Co. Ltd. Representative: Lee, Chi-Fung | 6 | 0 | 100% | None |
| Indedpent Director | Lee, Chun-Hsien | 5 | 0 | 83.3% | None |
| Indedpent Director | Wang, Yueh-Cheng | 6 | 0 | 100% | None |
| Supervisor | Wong, Chi-Yin | 5 | 0 | 83.3% | None |
| Supervisor | Wang, Ching-Hsiang | 5 | 0 | 83.3% | None |
| Supervisor | Chen, Li-Ju | 6 | 0 | 100% | None |

Other required disclosure:

I. Should any of the following takes place in a board meeting, the date and number of the meeting, the content of proposal, Independent Director's opinions, and the Company's response to the said opinions shall be specified:
   (I) Items listed in Article 14-3 of the Securities and Exchange Act.
   (II) Other than the matters mentioned above, other resolutions of board meetings that are objected and reserved by the Independent Directors on record or in written statements.
   Independent Directors did not express any objections or reservations on important resolutions passed by the Board of Directors in 2018. Please refer to pages 31-32 of the annual report for details on the date and number of the 2018 Board meetings and the content of proposals.

II. When Directors abstain themselves for being a stakeholder in certain proposals, the name of the Directors, the content of the proposal, reasons for abstentions and the results of voting counts shall be stated.
   There were no Directors who needed to be abstained due to conflicts of interest for the important resolutions that were passed by the Board of Directors in 2018.

III. The target and implement result of enhancing the functionality of the Board of Directors, such as the establishment of an Audit Committee and enhancement of transparency of information, in the current year and the most recent year: To achieve the target of information transparency enhancement, the Company's relevant information is disclosed timely on the Market Observation Post System (MOPS) for investors' reference.

Note 1: For corporate Directors/Supervisors, the name of the corporate shareholders and their representatives shall be disclosed.

Note 2: (1) Where Directors or Supervisors resign before the end of the year, the date of resignation shall be added in the Remark column. Actual presence (attendance) rate (%) shall be calculated using the number of board meetings convened and actual presence (attendance) during the term of service.

(2) Where Directors and Supervisors were re-elected before the end of the year, both the incoming and outgoing Directors and Supervisors shall be filled in accordingly. Whether the Director or Supervisor was outgoing, incoming, or re-elected, as well as the date of re-election shall be noted in the Remark Column. Actual presence (attendance) rate (%) shall be calculated using the number of board meetings convened and actual presence (attendance) during the term of service.

(II) Operations of the Audit Committee or Supervisors' Involvement in the Operations of the Board of Directors:

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

   The Board of Directors held six (6) meetings (A) in the most recent year. Information regarding attendance is provided in the table below:

| Title | Name | Actual attendance in person (B) | Rate of actual attendance in person (%) (B/A) | Remark |
|---|---|---|---|---|
| Supervisor | Wong, Chi-Yin | 5 | 83.3% | None |
| Supervisor | Wang, Ching-Hsiang | 5 | 83.3% | None |
| Supervisor | Chen, Li-Ju | 6 | 100% | None |

Other required disclosure:

I. Composition and responsibilities of the Supervisors:

(I) Communication between the Supervisors and employees as well as shareholders (e.g. communication channels and methods):

The supervisor would talk to employees or shareholders directly, if necessary, when attending the Company's board meetings or shareholders' meetings in person.

(II) Communication between Supervisors and the head of internal audit and CPA (including issues, audit methods, and results regarding the Company's finance and business):

The Supervisors would learn about the operations and auditing situation of the Company through auditing reports provided by the auditing unit on a regular basis and learn about the Company's financial conditions, the implementation of internal auditing, and matters reported by the participating accountants by participating in board meetings on a regular basis. The Supervisors might also communicate with the accountants directly via phone, email, and other methods.

II. If the Supervisors stated any opinions while attending board meetings, the date, session, contents of the proposals discussed, and resolution of the board meeting as well as the Company's response to the said shall be specified: None.

The Supervisors did not have any objections to the proposals discussed at the board meetings when attending the meetings.

Note:

* In the event that a Supervisor resigns before the end of the year, the date of resignation shall be added to the Remark column. The actual attendance rate (%) shall be calculated based on the number of actual attendance during the Supervisor's term of service.

* Where Supervisors were re-elected before the end of the year, both the incoming and outgoing Supervisors shall be filled in accordingly. Whether the Supervisor was outgoing, incoming, or re-elected, as well as the date of re-election shall be noted in the Remark column. Actual attendance rate (%) shall be calculated using the number of actual attendance during the term of service.

(III) Status of corporate governance, differences between the actual situation and the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies," and the reasons of the said differences

| Assessed items | Current Operations (Note) | | | Differences between the actual situation and the "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and the reasons of the said differences |
|---|---|---|---|---|
| | Yes | No | Summary | |
| I. Has the Company established and disclosed its code of practice on corporate governance based on"Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies"? | | V | The Company's code of practice is not formulated as yet based on the current operating condition of the Company. The Company plans to promote and implement CSR in 2018. Relevant guidelines or code of practice will be established by then. | The Company operates in accordance with relevant laws and regulations and has in fact implemented corporate governance in the Company. The company has currently stipulated "Guidelines of Shareholders'Meeting," "Elections of Directors and Supervisors," "Board of Directors' Meeting," and "Articles of Remuneration Committee." |
| II. The shareholding structure of the Company and shareholders' rights<br>(I) Has the Company established an internal SOP to respond to shareholders' suggestions, questions, disputes, and lawsuits, and implement them according to the procedure?<br>(II) Is the Company in control of the main shareholders who actually control the Company and the list of final controllers of the main shareholders?<br>(III) Has the Company established and executed the mechanisms of risk management and firewall among its affiliates?<br>(IV) Has the Company established an internal regulation to prohibit its employees to buy and sell any marketable securities using undisclosed information in the market? | V<br>V<br>V<br>V | | (I) Currently handled by the Spokesperson.<br>(II) Keep in touch with the main shareholders.<br>(III) Conduct in accordance with the relevant regulations of the Company.<br>(IV) Established the internal control system in writing to prevent insider trading in accordance with Article 8 of "Regulations Governing Establishment of Internal Control Systems by Public Companies." | No differences |
| III. Organization and responsibilities of the Board of | V | | (I) Other than the management | No differences |

| Assessed items | Current Operations (Note) | | | Differences between the actual situation and the "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and the reasons of the said differences |
|---|---|---|---|---|
| | Yes | No | Summary | |
| Directors<br>(I) Has the Board of Directors drawn up policies on diversity of its members and implemented them?<br>(II) Is the Company willing to establish any other various functional committees, except for the Remuneration Committee and Auditing Committee, which are required by law?<br>(III) Has the Company established any regulations on evaluating the effectiveness of Board of Directors and the method of evaluation, and hold such an evaluation annually and periodically?<br>(IV) Does the Company assess the independence of Certified Public Accountants on a regular basis? | V<br>V | V | team, the members of the Board of Directors who are involved in the operations of the Company include external Directors and Independent Directors.<br>(II) The Remuneration Committee has been founded in accordance with the regulations. Committees with other functions will be founded in accordance with operational scale of the Company.<br>(III) The Remuneration Committee is responsible for the periodic evaluation of the performance of the members of the Board of Directors.<br>(IV) The Board of Directors has already put in place periodic assessment of the independence of Certified Public Accountants. Actions taken include reviewing the shareholder register to ensure the auditors are not stakeholders of the Company and obtaining the Declaration of Independence from auditors and submitting it to the Board of Directors for discussion before appointing the auditors. | |

| Assessed items | Current Operations (Note) | | | Differences between the actual situation and the "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and the reasons of the said differences |
|---|---|---|---|---|
| | Yes | No | Summary | |
| IV. Has the publicly-listed Company set up a dedicated unit or appointed designated personnel to handle governance related affairs (including but not limited to supplying information requested by the Directors and Supervisors, handling matters related to the Board of Directors and shareholders' meeting in accordance by law, processing company registration and change of registration, and preparing minutes of the board meetings and shareholders' meetings)? | V | | The units that are responsible for governing the Company are the General Manager Office andDepartment of Finance and Accounting. Other than providing information that is needed for the Directors and Supervisors to carry out business, they are also responsible for matters related to shareholders' meeting and Board of Directors. | No differences |
| V. Has your company set up channels of communication for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), dedicated a section of the company's website for stakeholder affairs and adequately responded to stakeholders' inquiries on significant corporate social responsibility issues? | V | | The acting spokesperson of the Company is currently serving as the point of contact for stakeholders and is responsible for responding to issues and suggestions that are related to shareholders, employees, customers, and suppliers in the stakeholders' section that is set up on the Company's website. | No differences |
| VI. Has the Company commissioned a professional shareholder service agency to organize shareholders' meeting and handle other relevant affairs? | V | | The Company's securities-related matters has been delegated to Transfer Agency Department of Jih-Sun Securities Co. Ltd. | No differences |
| VII. Information Disclosure<br>(I) Does the Company build a website to disclose information on financial statements and corporate governance?<br>(II) Has the Company adopted other methods of information disclosure (such as setting up an English website, assigning personnel for the collection and disclosure of company information, implementing the spokesperson system, and | V | | The Company has set up websites that contain the introduction of the Company and material business and financial information. The Company has also disclosed information that is related to corporate governance on MOPS. The Company has shared a link on the Company's website; shareholders and investors may check the link for more information by themselves. | The Company plans to promote and implement CSR in 2019. Information associated with corporate governance will be disclosed at the Company's website by then. |

<table>
<tr><th rowspan="2">Assessed items</th><th colspan="3">Current Operations (Note)</th><th rowspan="2">Differences between the actual situation and the "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and the reasons of the said differences</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td>releasing the records of road shows on the company website)?</td><td></td><td></td><td></td><td></td></tr>
<tr><td>VIII. 8. Does the Company have other material information that would give a better understanding of its corporate governance (Including but not limited to employee's rights, employee care, investor relations, supplier relations, stakeholders' rights, further studies of Directors and Supervisors, implementation of risk management policies and measurement standards, implementation of customer policies, and purchase of liability insurance for the Directors and Supervisors of the Company)?</td><td>V</td><td></td><td>(I) The Company treats the employees with honesty and builds positive relationships with employees through all kinds of benefits and education and training.<br>(II) The training courses of the Directors and Supervisors: The Directors and Supervisors of the Company have attended six hours of courses on corporate governance in 2018. The Directors and Supervisors are informed of the latest updates of regulations regarding corporate governance.<br>(III) The risk management policy and implementation of risk measurement: Not applicable (Applicable to securities firms).<br>(IV) Implementation of policies to protect consumers or customers: Not applicable (Applicable to securities firms).<br>(V) The liability insurances that the company have purchased for the Directors and Supervisors: The Company has purchased liability insurances for the Directors, Supervisors, and managerial officers since January 2010.</td><td>No differences</td></tr>
<tr><td colspan="5">IX. Please provide information on the status of improvement regarding the results of corporate governance evaluation published by the TWSE Corporate Governance Center in the most recent year. For improvements not yet implemented, state the areas and policies your company set as priorities for improvement. (Leave blank if your company was not evaluated.)<br>The company was not evaluated.</td></tr>
</table>

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

The training courses of the Directors and Supervisors in 2018

| Title | Name | Date | Organizer | Course Name | Time | Whether it is in line with the "Guidelines for Training Courses of Directors and Supervisors of Listed Companies" |
|---|---|---|---|---|---|---|
| President and General Manager | Lin, Yan-Shen | December 13, 2018 | Securities and Futures Institute | Introduction of Regulation of Competition Behaviors toward the Right of Management and Practical Case Studies | 3 hours | Yes |
| | | December 13, 2018 | Securities and Futures Institute | Corporate Financial Crisis Early Warning and Type Analysis | 3 hours | Yes |
| Director | Lin, Chun-Sheng | April 12, 2018 | Securities and Futures Institute | Discussion on the Prevention of Employee Frauds in Enterprises | 3 hours | Yes |
| | | April 12, 2018 | Securities and Futures Institute | How to replace the Supervisory System with the Audit Committee | 3 hours | Yes |
| Director | Hau, Hai-Yen | September 26, 2018 | Taiwan Stock Exchange Corporation | 2018 ESG Investment Forum | 3 hours | Yes |
| | | December 6, 2018 | Securities and Futures Institute | Discussion on the Focus of the Latest Amendments to the Company Act and Practices | 3 hours | Yes |
| Representative of Corporate Directors | Lee, Chi-Fung | December 5, 2018 | Securities and Futures Institute | Discussion on the Issues of Intergration of Human Resources and Mergers and Acquisition during the Business Merging Process | 3 hours | Yes |
| | | December 5, 2018 | Securities and Futures Institute | Corporate Strategy and Key Performance Indicators | 3 hours | Yes |
| Director | Ng Chor Wah Patrick | November 28, 2018 | Hong Kong Institute of Certified Public Accountants | Introduction to the Balanced Scorecard | 1.5 hours | Yes |
| | | November 28, 2018 | Hong Kong Institute of Certified Public Accountants | Know Key Performance Indicators | 1.5 hours | Yes |
| | | November 27, 2018 | Hong Kong Institute of Certified Public Accountants | Goals and Setting Goals | 2 hours | Yes |
| | | November 9, 2018 | Hong Kong Institute of Certified Public Accountants | Understand Wealth Management Products from the Bankers | 2 hours | Yes |
| Indedpent Director | Wang, Yueh-Cheng | June 25, 2018 | Accounting Research and Development Foundation | Audit Management Practices Governing Business [Cost Saving] and [Competition Strategies] | 6 hours | Yes |

| | | | | | | |
|---|---|---|---|---|---|---|
| Indedpent Director | Lee, Chun-Hsien | November 21, 2018 | Securities and Futures Institute | Discussion on the Impact of the US-China Trade Disputes on the Enterprises in Taiwan | 3 hours | Yes |
| | | December 5, 2018 | Securities and Futures Institute | Discussion on the Issues of Intergration of Human Resources and Mergers and Acquisition during the Business Merging Process | 3 hours | Yes |
| Supervisors | Wong, Chi-Yin | June 15, 2018 | Accounting Research and Development Foundation | Discussion on the Issues of Compliance and Relevant Legal Liability Governing [Business Mergers and Acquisition] | 3 hours | Yes |
| | | June 15, 2018 | Accounting Research and Development Foundation | The Financial Impact of Cross-Strait Anti-Tax Avoidance Regulations on Enterprises and Countermeasures | 3 hours | Yes |
| Supervisors | Wang, Ching-Hsiang | January 12, 2018 | Taiwan CPA Association, ROC | Valuation of Equity of Unlisted Companies | 3 hours | Yes |
| | | October 15, 2018 | Taiwan CPA Association, ROC | IFRS 16 Leases | 3 hours | Yes |
| | | October 22, 2018 | Taiwan CPA Association, ROC | Highlights of the Amendments to the Company Act 1 | 3 hours | Yes |
| | | October 23, 2018 | Taiwan CPA Association, ROC | Highlights of the Amendments to the Company Act 2 | 3 hours | Yes |
| | | November 27, 2018 | Taiwan CPA Association, ROC | Overseas Capital and Equity Arrangements | 4 hours | Yes |
| Supervisor | Chen, Li-Ju | October 22, 2018 | Taiwan CPA Association, ROC | Highlights of the Amendments to the Company Act 1 | 3 hours | Yes |
| | | October 23, 2018 | Taiwan CPA Association, ROC | Highlights of the Amendments to the Company Act 2 | 3 hours | Yes |

(IV) Has the company set up a Remuneration Committee? If yes, disclose the composition, responsibility, and operations of the Remuneration Committee:

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

| Identity atus (Note 1) | Condition / Name | Does the Director have five or more years of work experience and the following professional qualifications? | | | Compliance to independence (Note 2) | | | | | | | | Number of other public companies where he/she is a member of the remuneration committee | Remark |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Currently serving as a lecturer or a higher post in a private or public college or university in the field of business, law, finance, accounting, or relevant majors required by the Company | Currently serving as a judge, prosecutor, lawyer, accountant, or other professional or technician who have passed national examinations and obtained specialized licenses. | Work experience necessary for business administration, legal affairs, finance, accounting, or in the fields related to the Company's business | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | |
| Indedpent Director | Lee, Chun-Hsien | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None | |
| Indedpent Director | Wang, Yueh-Cheng | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None | |
| Others | Lee, Kuen-Chang | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 | |

Note 1: For Status, please identify whether the person is a Director, Independent Director, or other.

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

(1) Not an employeeof the Company or any of its affiliates.
(2) Not a director or supervisor of the Company or any of its affiliates. Independent directors appointed by the Company, its parent company, or its subsidiaries in accordance with this Act or the local regulations are not subject to this clause.
(3) Not a natural-person shareholder who holds more than 1% of the shares issued or is ranked top 10 in terms of the total quantity of shares held, including the shares held in the name of the person's spouse, minor children, or others.
(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship in the preceding three paragraphs.
(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds more than 5% of the total number of shares issued by the Company or is ranked top 5 in terms of quantity of shares held.
(6) Not a director, supervisor, manager, or a shareholder who holds more than 5% of shares at a company or institution that has a financial or business relationship with the Company.
(7) Not a professional individual or owner, partner, Director, Supervisor, or managerial officer, or spouse thereof of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting, or consultation services to the Company or to any of its affiliated business.
(8) Where none of the circumstances in the subparagraphs of Article 30 of the Company Act applies.

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

1. There are a total of three members in the Company's Remuneration Committee.
2. Duration of the current term of service: June 20, 2017 to June 19, 2020. Three (A) Remuneration Committee meetings were held in the past year. The qualification of members and attendance are shown below:

| Title | Name | Numbers of actual attendance (B) | Attendance by proxy | The actual attendance rate (%) (B/A) (Note) | Remark |
|---|---|---|---|---|---|
| Convener | Lee, Chun-Hsien | 2 | 0 | 100% | |
| Committee Member | Wang, Yueh-Cheng | 2 | 0 | 100% | |
| Committee Member | Lee, Kuen-Chang | 1 | 1 | 50% | |

Other required disclosure:

I. If the Board of Directors choose not to adopt or revise suggestions proposed by the Remuneration Committee, the date of the Directors' Meeting, session, contents discussed, results of meeting resolutions, and the Company's response to the opinions provided by the Remuneration Committee shall be specified (e.g., where the salary and remuneration approved by the Board of Directors is better than that suggested by the Remuneration Committee, the differences and the reason for the said differences shall be specified).
The suggestions made by the Remuneration Committee for the year 2017 have all been approved by the Board of Directors.

II. Regarding the resolutions to be voted on by the Remuneration Committee, if there are objections or reservations among the members, and there are records or written statements, the date, number, content of the proposal, all members' opinions, and response to dissenting opinions shall be specified.
There were no objections or reservations regarding the resolutions of the Remuneration Committee for the year 2018.

Note 1: (1) Where members of the Remuneration Committee resign before the end of the year, the date of resignation shall be noted in the Remark column. Actual presence rate (%) shall be calculated using the number of the Remuneration Committee meetings convened and actual presence during the term of service.
(2) When an election is held for the Remuneration Committee before end of the year, members of both the new and old committees shall be listed in separate columns and noted as new, old, or re-elcted members, along with the elected date, in the remark column. The actual attendance rate (%) shall be calculated based on the number of meetings held during a member's term in the Remuneration Committee and the number of actual attendance of the member.

## (V) Implementation of Corporate Social Responsibility

| Assessed items | Current Operations (Note 1) | | | Differences between the actual situation and the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Brief Description (Note 2) | |
| I. Implementing corporate governance<br>(I) Has the Company established a corporate social responsibility (CSR) policy or system, and assessed the effectiveness of implementation?<br>(II) Does the Company hold CSR training on a regular basis?<br>(III) Has the Company established a designated full (part) time unit to promote CSR, and has the Board authorized senior management to deal with and then to report to the Board of Directors pertaining to relevant executions?<br>(IV) Has the Company established a fair remuneration policy and incorporated employee performance evaluation with CSR policy, as well as established a precise and effective incentive and punishment system? | V<br>V<br>V<br>V | | (I) The Company has stipulated regulations regarding social responsibility implementation in the work guidelines and SOP regulations, respectively. The Company plans to promote and implement CSR in 2019. The CSR policies or regulations will be stipulated then.<br>(II) The Company has already held employee trainings periodically and randomly to ensure compliance with company safety and health guidelines of CSR and SOP regulations, and implemented an incentive and punishment system in accordance with work and personnel regulations.<br>(III) The promotion of CSR is jointly promoted by the Board of Directors, General Manager Office, and Department of Administration and Management.<br>(IV) The Company has stipulated performance assessment methods with the combination of all remuneration policies to share the Company's operating results with the employees. | No differences |
| II. Developing sustainable environment<br>(I) Has the Company striven to enhance the utility rate of each resource and use renewable materials that have less impact on the environment?<br>(II) Has the Company established a suitable environmental management system based on its industry's characteristics?<br>(III) Has the Company paid attention to the impacts of weather changes on its | V<br>V | | (I) The recycling and reuse of the Company's wastes have been outsourced to a waste treatment company. Waste water and rain water recycling devices have been planned at new plants, and the new plants has complied with energy saving requirements of the authorities.<br>(II) The Company is compliant with the relevant regulations on public safety of buildings, fire regulations, labor safety regulations, waste disposal regulations, energy saving, and | No differences |

| Assessed items | Current Operations (Note 1) | | | Differences between the actual situation and the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Brief Description (Note 2) | |
| operational activities; in addition, has it carried out inspections on greenhouse gases and implemented strategies to conserve energy and lower CO2 emissions and greenhouse gases? | V | | carbon reduction management stipulated by Science and Industrial Park. The Company also conducts inspection and issues declarations regularly. The Company plans to introduce the ISO14001 Environmental Management System in the hope of reducing waste and utilizing resources effectively.<br>(III) The Company is not in the energy consuming and highly polluting industry. The Company will continue to observe the impact of climate change on its operating activities and carry out strategic plans and action plans on energy conservation and carbon reduction. | |
| III. Maintaining Social Welfare<br>(I) Has the Company set up relevant management policies and procedures according to related laws and regulations as well as the International Human Rights Treaty?<br>(II) Has the Company established employee complaint mechanisms and channels and handled complaints appropriately?<br>(III) Has the Company offered a safe and healthy work environment for its employees and offered the employees safety and health education?<br>(IV) Has the Company established a regular communication mechanism with employees and informed the employees of operational changes that may have significant impacts on them in a reasonable manner?<br>(V) Has the Company established | V<br>V<br>V<br>V<br>V | | (I) The Company's personnel regualations are stipulated in the spirit of surpassing the Labor Standards Act. The major changes of employee rights will be negotiated through labor-management meetings. The current labor-management relationship is in harmonious.<br>(II) The Company has set up employee opinion hotline and relevant management procedures to deal with the said opinions.<br>(III) The Company conducts periodic health examination on employees in accordance with the regulations. Each plant has established the Department of Construction Safety that directly reports to the General Manager; the Labor Safety and Health Committee meets and evaluates employee's work environment periodically. The Company currently plans to introduce the new ISO 45001 | No differences |

| Assessed items | Current Operations (Note 1) | | | Differences between the actual situation and the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Brief Description (Note 2) | |
| an effective career development plan for its employees?<br>(VI) Has the Company established consumer rights protection policies and complaint procedures in terms of R&D, procurement, production, operations, and customer support?<br>(VII) Does the Company comply with relevant laws, regulations, and international standards pertaining to marketing activities and labels on its products and services?<br>(VIII) Prior to conducting business with suppliers, has the Company evaluated the suppliers in terms of past records of impacts on the environment and society?<br>(IX) Does the Company's contract with its primary suppliers contain any immediate termination clause for suppliers' violation of corporate social responsibility with significant impacts on the environment and society? | V<br>V<br>V<br>V | | Occupational Health and Safety Management System to provide a healthy work environment for the employees.<br>(IV) The Company has established a Labor-management Committee and holds labor-management meetings periodically to negotiate matters with regard to labor-management relations. The Committee also discloses the Company's revenue and each department's material matters to the employees every month.<br>(V) Each of the Company's department has planned respective annual trainings for its own employees to meet the requirement of professional skills for the job.<br>(VI) SOP has been set up to facilitate the Company's workflow and relevant records have been kept. The customer complaint channels have been clearly labeled on the products. The stakeholder section has also been established on the Company's website for stakeholders to provide feedback. In addition, clear complaint handling procedures has been set up in the Company to provide effective responses to customers.<br>(VII) The Company's products are a variety of artificial joints to be implanted in human body. The products need to go through strict product certification processes before being launched in the country where the products are sold.<br>(VIII) The Company's suppliers are all required to go through standard certification procedures before becoming qualified suppliers. For the | |

<table>
<tr><th rowspan="2">Assessed items</th><th colspan="3">Current Operations (Note 1)</th><th rowspan="2">Differences between the actual situation and the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Brief Description (Note 2)</th></tr>
<tr><td></td><td></td><td></td><td>materials implanted into the human body, relevant production and test data should be provided in batches for subsequent tracking.<br>(IX) The purchase agreement between the Company and suppliers are of long-term nature. All products need to be inspected before put in the inventory. Those that fail the inspection will be returned. Assessment and field auditing will be given on suppliers periodically and the relationship will be terminated for those who fail to meet the requirements.</td><td></td></tr>
<tr><td>IV. Strengthening information disclosure<br>(I) On the Company's website and MOPS, has the Company disclosed information pertaining to corporate social responsibility in terms of relevance and reliability?</td><td></td><td>V</td><td>The Company has compiled the 2017 CRS report. Relevant information is disclosed on the Company's website.</td><td>The Company plans to promote and implement CSR in 2019. The relevant information of the Company's compliance with CSR will be disclosed on the Company's website by then.</td></tr>
<tr><td colspan="5">V. If your company has set up a set of principles for corporate social responsibility practices based on the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies," please provide detailed information on the differences between your company's principles and the principles provided in the said principles:<br>The Company has not established the Corporate Social Responsibility Best Practice Principles. However, the Company, in fact, are operating in line with the spirit of "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" as the Company is a medical instrument company working to enhance physical health. In order to carry out CSR, other than implementing information transparency, the Company strives to achieve labor-management harmony internally and promote the advancement of orthopedic medicine externally. The Company holds a high bar on the quality of the products to meet customers' expectations of the Company's products. Furthermore, the Company is willing to continue to promote social welfare activities. The Company plans to promote and implement CSR in 2019, and relevant CSR policies or mechanisms will be established by then.</td></tr>
<tr><td colspan="5">VI. Other important information helpful in understanding CSR operation:<br>1. Environmental protection: The factory has set up production waste recovery devices, including dust collection equipment, gas collection equipment, sewage, waste water, and waste oil treatment equipment, to reduce the impact on employees and the environment. The Company plans to introduce the ISO14001 Environmental Management System in hope of reducing waste and utilizing resources effectively.<br>2. Social contributions: The Company provides high quality artificial joints with more reasonable prices, breaks the monopoly of orthopedic markets that has been controlled by the international</td></tr>
</table>

| Assessed items | Current Operations (Note 1) | | | Differences between the actual situation and the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Brief Description (Note 2) | |
| corporations for a long time, reduces medical expenses for patients, and improves the inconvenience of the elderly's movement. Moreover, the Company has gradually increased the investment in Taiwan and left the skills and technology in Taiwan to create more job opportunities and peripheral business opportunities.<br>3. Consumer rights: In addition to the Company's strict control over the quality of products during the production process, all of the Company's products have been insured with product liability insurance.<br>4. Human rights: In addition to the relevant laws and regulations, the Company has purchased insurance for all employees and also sets up labor-management meetings to protect the employees' rights and interests, while taking into account the price levels and the Company's profitability to adjust the employee's salary to share the Company's operating results.<br>5. (5) Safety and Health: The Company has a safety and security department to regularly inspect and improve the labor environment. It also provides employees with education and training on labor safety and regular health checkups; standard operating procedures for product manufacturing and quality inspection are established to ensure product safety. The Company is currently planning to introduce the new ISO 45001 Occupational Health and Safety Management Systems to provide a healthy work environment to the employees. | | | | |
| VII. Provide detailed information if the Company's CSR Report has been certified by an accreditation agency:<br>The Company has prepared the 2018 CRS report in accordance with the GRI G4 Guidelines in 2017. The report has been assured by EY Taiwan in accordance with ISAE 3000. | | | | |

## (VI) Your company's corporate integrity practices and actions taken:

| Assessed items | Current Operations (Note 1) | | | Differences between the actual situation and the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said differences |
|---|---|---|---|---|
| | Yes | No | Summary | |
| I. Formulating policies and plans for ethical management<br>(I) Does the Company specify the policies and approaches of ethical management in its regulations and external documents, and does the Board of Directors and the senior management implement these policies?<br>(II) Has the Company formulated any projects which prevent non-ethical behaviors from taking place | V<br>V<br>V | | (I) The Company takes "integrity" as the top priority for the promotion of the corporate core values. Integrity has been clearly stated in the personnel regulations and will be implemented in the daily operations.<br>(II) The Company has included relevant plans in the regulations, such as management regulations, guidelines, and handling procedures, and will fulfill the | No differences |

| Assessed items | Current Operations (Note 1) | | | Differences between the actual situation and the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said differences |
|---|---|---|---|---|
| | Yes | No | Summary | |
| and specified the operating procedures, behavioral guidance, penalties and grievance channels in the event of violations in the said projects and implemented them accordingly?<br>(III) Does the Company take precautions toward the operational activities with higher risk of unethical behaviors set out in all sub-paragraphs of Paragraph 2 of Article 7 of the"Ethical Corporate Management Best PracticePrinciples for TWSE/GTSM Listed Companies" or within other operational scopes. | | | commitment of ethical operations through new employee and department trainings.<br>(III) The Company has established SOP and regulations for daily transaction procedures and provided clear guidelines on unethical behaviors. | |
| II. Implementation of ethical business operations<br>(I) Has the Company assessed the integrity records of its business partners and specified ethical business policy in contracts with its trading partners?<br>(II) Has the Company established a full (part) time unit directly under the supervision of the Board of Directors, which is devoted to promoting corporate ethical business and routinely reports its implementations to the Board of Directors?<br>(III) Has the Company set up policies to prevent conflict of interest, and provide an appropriate reporting channel in practice?<br>(IV) To implement ethical business policy, has the Company established an effective accounting system and internal control system, | V<br><br>V<br><br>V<br>V | <br>V | (I) The contract between the Company and its business partners has clearly stated the terms related to ethical behaviors; the partners shall comply with the principle of legal behaviors, otherwise the Company may terminate the contract.<br>(II) The Company currently does not have a full (part) time unit that is devoted to promoting corporate ethical business, which is instead implemented by the management of each department in accordance with the regulations established by the Company. The internal auditing department is responsible for the review of implementation periodically and submit the auditing results to the Independent Directors and Supervisors and report it during the Board of Directors.<br>(III) The Company has established appropriate regulations in | No differences |

| Assessed items | Current Operations (Note 1) | | | Differences between the actual situation and the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said differences |
|---|---|---|---|---|
| | Yes | No | Summary | |
| and routinely asks the internal auditing unit to verify or entrusts accountant to review the systems?<br>(V) Does the Company host routine internal and external ethical business operations training? | V | | relevant management regulations and has set up corresponding channels for opinions to prevent transactions containing conflicts of interest from happening.<br>(IV) The Company has set up an internal control system and relevant management regulations for trading cycles. The random review of annual auditing plans will be planned and carried out by internal auditors, and the inspection results will be submitted to the Directors, Supervisors, and members of the Board of Directors. The implementation in this regard is great.<br>(V) The Company arranges internal and external trainings periodically to cultivate the employees to acquire all necessary skills set out in the internal regulations in line with the Company's spirit of ethical operations. | |
| III. Operations of the Company's reporting mechanism<br>(I) Has the Company established a physical reporting and incentives system, set up a convenient reporting channel, and designated appropriate personnel to handle the cases regarding the persons being reported?<br>(II) Has the Company set up SOP for accepting and investigating reported cases and relevant confidentiality mechanisms?<br>(III) Has the Company adopted measures to protect whistleblowers from being subject to inappropriate treatment because of | V<br>V<br>V | | (I) The Company currently has employee opinion feedback mailbox, which is handled by administrative units in accordance with the Company's relevant regulations.<br>(II) The Company has set up management guidelines for the opinion mailbox, which includes acceptance and handling procedures.<br>(III) The Company has stipulated confidentiality provisions for the opinions provided, which will be handled in accordance with regulations that are stipulated by the Company. | No differences |

| Assessed items | Current Operations (Note 1) | | | Differences between the actual situation and the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said differences |
|---|---|---|---|---|
| | Yes | No | Summary | |
| reporting a case? | | | | |
| IV. Strengthening information disclosure<br>(I) Has the Company disclosed the contents and effectiveness of implementing its ethical operations policy on its website and MOPS? | V | | Even though there are no sections with regard to disclosure of ethical operations on the Company's website, the Company's core value of ethical operations has been specified in the introduction of the Company. | No differences |
| V. Where the Company has stipulated its own best practices on ethical corporate management according to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe any differences between the actual situation in the Company the said best practices: Even though the Company currently does not have guidelines on ethical operations, the Company's operating philosophy and management regulations are in line with the regulations of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies." The Company' core values: "integrity," "responsibility," "happiness," and "innovation," have been gradually implemented at all levels of the Company's. The management has established regulations, such as work regulations, management methods, handling procedures, and SOP for the management of daily operations. All of the Company's operations are well in line with Company's commitment to ethical operations with the overseeing mechanism and risk control executed by the auditing unit and Independent Directors and Supervisors, to meet the investors' and all employees' expectations of the Company. | | | | |
| VI. Any other important information that facilitates the understanding of the Company's implementation of ethical corporate management: (e.g., any review or amendment to the Company's Ethical Corporate Management Best Practice Principles): None. | | | | |

Note 1: Regardless of whether "yes" or "no" is checked under the item of operations, the Company shall state an appropriate explanation in the column of Brief Description.

(VII) If the Company has established best practices for corporate governance and other relevant regulations, the means to search for these regulations shall be disclosed: None.

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

(IX) The execution of the internal control system shall have the following items disclosed.

(1) Statement of Internal Controls

United Orthopedic Corporation

Statement of Internal Control System

Date: March 18, 2019

According to the results of the Company's self-assessment, the Company's statement pertaining to the internal control system in 2018 is as follows:

I. The Company acknowledges that the establishment, implementation, and maintenance of the internal control system are the responsibilities of the Board of Directors and the managers of the Company. The Company has constructed such a system. The purpose is to provide reasonable assurance of the operational effectiveness and efficiency (including profitability, performance, and protection of asset security), reliability of financial reporting, and compliance with relevant laws and regulations.

II. The internal control system has inherent constraints, and no matter how comprehensive its design may be, an effective internal control system is only capable of providing adequate assurance for achieving the above-mentioned objectives. Moreover, the effectiveness of the internal control system may change based on the changes in the environment and under different situations. Nevertheless, the Company's internal control system contains self-monitoring mechanisms, and the Company takes immediate remedial actions in response to any identified deficiencies.

III. The Company assesses the effectiveness of the design and implementation of the internal control system based on the items for judgment of the effectiveness of the internal control system set out in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as "the Regulations"). The criteria adopted by the Regulations are divided into give components in accordance with the procedures for management and control: (1) Control Environment, (2) Risk Assessment and Response, (3) Control Activities, (4) Information and Communication, and (5) Monitoring. Each component includes a number of items. Please refer to "the Regulations" for the aforementioned items.

IV. The Company has assessed the effectiveness of the design and implementation of its internal control system according to the said criteria.

V. The results of the assessment provide reasonable assurance about the effectiveness of the Company's internal control system (including the supervision and management of the subsidiaries) as of December 31, 2018, including operational effectiveness and efficiency, reliability of financial reporting, and compliance with relevant regulations.

VI. This statement will become an integral part of the Annual Report and the Prospectus of the Company and will be published. Any false hold, concealment, or other illegality in the afore-mentioned content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

VII. This statement has been approved by the Company's Board of Directors on March 18, 2019, and of the six Board members in attendance, no one vetoed in objection and all agreed to the content of this statement.

United Orthopedic Corporation

Chairman: Lin, Yan-Shen

President: Lin, Yan-Shen

(2) The companies that entrusted project-based accountants to review the internal control system, the accountant's audit report shall be disclosed: none

(X) Up to the date of publication of the Annual Report in the most recent year, the punishments imposed on the Company and its personnel according to law, the punishments imposed by the Company on its personnel for violations of the internal control system, and the main deficiencies and improvements: None.

(XI) Significant resolutions made in/by the Shareholders' Meeting and the Board of Directors in the most recent year up to the date of publication of this Annual Report

(1) Shareholders' meeting

| Date | Significant resolutions at the meetings |
|---|---|
| June 12, 2018 | 1. Passed the 2017 business report and financial statements<br>2. Passed the proposal for 2017earnings distribution<br>Implementation: At the meeting of the Board of Directors on June 12, 2018, the Board of Directors approved to set the ex-dividend base date on July 16, 2018 and the date of issuance on August 20, 2018.<br>3. Passed the proposal for the issuance of restricted employee shares<br>4. Passed the proposal for authorizing 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. |

(2) Board of Directors

| Date | Significant resolutions at the meetings |
|---|---|
| March 7, 2018 | 1. Passed the resolution of the distribution of 2017 remuneration to employees, Directors, and Supervisors<br>2. Passed the the resolution of the Company's managerial officers' remuneration adjustment<br>3. Passed the resolution of 2017 financial statements and business reports of the Company<br>4. Passed the resolution of the internal control system statement<br>5. Passed the resolution of the distribution of the Company's earnings in 2017<br>6. Passed the proposal for issuance of new restricted employee shares<br>7. Passed the proposal for authorizing the Board of Directors to release stocks of the subsidiary company A-SPINE Asia Co., Ltd. (A-Spine Asia) or relinquish the subscription of shares in the cash capital increase for A-Spine Asia to meet the listing application requirements at the shareholders' meeting.<br>8. Passed the resolution of convening the 2018 shareholders' meeting<br>9. Passed the resolution of shareholders' proposal rights at the 2018 shareholders' meeting<br>10. Passed the resolution of the cancellation of new restricted employee shares recovered by the Company<br>11. Passed the Company's proposal for increasing the investment in the European subsidiary<br>12. Passed the Company's proposal for increasing the capital in the subsidiary UOC USA, Inc. indirectly by US$3 million<br>13. Passed the resolution of the CPA competence and independence evaluation report<br>14. Passed the Company's proposal for revising the limit on the funds loaned between the companies in which the Group has invested |
| April 24, 2018 | There are no resolutions at this meeting of Board of Directors |
| June 12, 2018 | 1. Passed the determination of the base date of 2017 earnings distribution of cash dividends |

| | |
|---|---|
| | 2. Passed the resolution of the distribution of 2017 remuneration to employees, Directors, and Supervisors<br>3. Passed the resolution of the Company's 2015 capital adjustment plan for capital increase and closed the case<br>4. Passed the Company's proposal for increasing the investment in the European subsidiary<br>5. Passed the resolution of the establishment of the policy on 2018 issuance of restricted employee shares |
| August 7, 2018 | 1. Passed the proposal for assessing the number of shares allocated to managers in the second-time issuance of restricted employee shares<br>2. Passed the Company's proposal for increasing the investment in the Japanese subsidiary<br>3. Passed the proposal for the settlement of United Medical (B.V.I.) Corporation and Lemax Co., Ltd. in which the Company has invested |
| November 6, 2018 | 1. Passed the proposal for the capital increase in the subsidiary company A-SPINE Asia Co., Ltd. |
| December 25, 2018 | 1. Passed the resolution of the 2019 auditing plan<br>2. Passed the Company's proposal for loaning of funds between the companies in which the Group has invested<br>3. Passed Company's proposal for endorsements and guarantees offered to the Group's subsidiaries |
| March 18, 2019 | 1. Passed the resolution of 2018 remuneration distribution to employees, Directors, and Supervisors'<br>2. Passed the the resolution of the Company's managerial officers' remuneration adjustment<br>3. Passed the Company's 2018 financial statements and business reports<br>4. Passed the resolution of the internal control system statement<br>5. Passed the resolution of the Company's 2018 earnings distribution<br>6. Resolved the proposal for the distribution of cash dividend for capital surplus<br>7. Passed the proposal for releasing the common stocks of the subsidiary company A-SPINE Asia Co., Ltd. held by the Company to the Company's shareholders.<br>8. Passed the amendments to partial provisions of the Company's Articles of Association<br>9. Passed the amendments to the Company's "Procedures for Election and Appointment of Directors"<br>10. Passed the amendments to the Company's "Rules of Procedures for Shareholders' Meetings"<br>11. Passed the amendments to the Company's "Procedures for Acquisition or Disposal of Assets"<br>12. Passed the amendments to partial provisions of the Company's "Procedures for Loaning of Funds to Others"<br>13. Passed the amendments to partial provisions of the Company's "Operating Procedures for Endorsements and Guarantees"<br>14. Passed the proposal for convening the 2019 annual shareholders' meeting<br>15. Passed the resolution of the shareholders' proposal right at the 2019 annual shareholders' meeting<br>16. Passed the resolution of the CPA competence and independence evaluation report<br>17. Passed the resolution of replacement of financial statement CPA<br>18. Passed the Company's proposal for increasing the investment in the Japanese subsidiary<br>19. Passed the Company's proposal for increasing the investment in the European subsidiary<br>20. Passed the Company's proposal for increasing the capital in the subsidiary UOC USA, Inc. indirectly by US$4 million |

(XII) Major contents of any dissenting opinions on record or stated in a written statement made by Directors or Supervisors regarding major resolutions at the meetings of the Board of Directors in the most recent year up to the publication date of this Annual

Report: None.

(XIII) In the past year and as of the date of publication of the Annual Report, a summary of the resignations and dismissals of the Company's the Chairman, General Manager, Accounting Supervisor, Finance Supervisor, Internal Audit Supervisor and R&D Supervisor: None.

March 31, 2018

| Title | Name | Date of assumption of duty | Date of dismissal | Reasons for resignation or dismissal |
|---|---|---|---|---|
| None | | | | |

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

## V. Information on CPA professional fees

(I) The Company may disclose the charges of accountants by disclosing it in ranges or respectively. The following items shall be disclosed if one of the following circumstances has occurred:

Table on the brackets of professional charges of the CPA

| Accounting firm | Name of the accountants | | Auditing period | Remarks |
|---|---|---|---|---|
| EY Taiwan | Chang, Chih-Ming | Huang,Chien-Tse | January 1, 2018-December 31, 2018 | None |

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

Unit: NT$1,000

| Fee Bracket \ Category of Fees | | Audit Fees | Non-Audit Fees | Total |
|---|---|---|---|---|
| 1 | Less than 2,000 thousand NTD | | | |
| 2 | 2,000 thousand NTD (included)-4,000 thousand NTD | 3,400 | 0 | 3,400 |
| 3 | 4,000 thousand NTD (included)- 6,000 thousand NTD | | | |
| 4 | 6,000 thousand NTD (included) -8,000 thousand NTD | | | |
| 5 | 8,000 thousand NTD (included) -10,000 thousand NTD | | | |
| 6 | 10,000 thousand NTD (included) or above | | | |

1. When the non-audit fees paid to the Certified Public Accountants, their firm, and its affiliated companies account for 25% or more of the audit fees, the amount of audit fees and non-audit fees and the content of non-audit services shall be disclosed.

Information on CPA Professional Fees

Unit: NT$1,000

| Accounting firm | Name of the accountants | Audit Fees | Non-Audit Fees | | | | | Time of Audit | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| | | | System design | Business registration | Human resource | Others (Note2) | Subtotal | | |
| EY Taiwan | Chang, Chih-Ming | 3,400 | 0 | 0 | 0 | 0 | 0 | Jan.1, 2018 | None |
| | Huang,Chien-Tse | | | | | | | Dec.31, 2018 | |

Note 1: Where the Company replaces the CPA or accounting firm, the auditing periods of the former and successor CPA or firm shall be listed separately with the reason for the replacement noted in the remarks column. The accounting and non-accounting fees paid to the former and successor CPA or firm shall also be disclosed.

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

2. When the Company has changed the accounting firm, and in that particular fiscal year, the audit fees paid was less than those of the fiscal year before that, the Company shall disclose the decreased amount and reason: Not applicable.

3. When the audit fees decreases by 15% or more than that in previous fiscal year, the Company shall disclose the decreased amount, ratio, and reason: Not applicable.

(II) The audit fees that are mentioned above are the fees paid to the accountant with regard to the services of financial report auditing, verification, review, financial forecast auditing, and tax compliance audits.

## VI. Information on replacement of CPAs

### (I) Information on the previous CPA

<table>
<tr><td>Date of Replacement</td><td colspan="3">March 18, 2019</td></tr>
<tr><td>Reason of replacement and explanation</td><td colspan="3">Due to the internal CPA's adjustment at EY Taiwan, the Board of Directors resolved to entrust the CPA Ma, Chun-Ting and CPA Huang, Chien-Tse at EY Taiwan to handle the certification of financial statements starting in the first quarter of 2019.</td></tr>
<tr><td rowspan="3">Statement on it is the authorizing party or the accountant that terminates or rejects the authorization</td><td>Contracting Parties<br>Situation</td><td>CPA</td><td>The authorizing party</td></tr>
<tr><td>Voluntarily terminated the authorization</td><td>✓</td><td></td></tr>
<tr><td>Rejected the (continuing) authorization</td><td></td><td></td></tr>
<tr><td>The opinions and reasons in the signed and issued audit reports which were not "no reservations" in the last two years</td><td colspan="3">There were reserved opinions in both 2017 and 2018</td></tr>
<tr><td rowspan="6">Different opinions from the issuer</td><td rowspan="4">Yes</td><td></td><td>Accounting principles or practices</td></tr>
<tr><td></td><td>Disclosure of financial report</td></tr>
<tr><td></td><td>Scope or procedure of auditing</td></tr>
<tr><td></td><td>Others</td></tr>
<tr><td>None</td><td colspan="2">✓</td></tr>
<tr><td colspan="3">Explanation: Not Applicable</td></tr>
<tr><td>Other disclosing items (Paragraph 6-1-4 to 6-1-7 of Article 10 of the principle shall be disclosed)</td><td colspan="3">None</td></tr>
</table>

### (II) About the successor CPA

| | |
|---|---|
| Name of accounting firm | EY Taiwan |
| Name of the accountants | CPA Ma, Chun-Ting and CPA Huang, Chien-Tse |
| Date of appointment | March 18, 2019 |
| The accounting method of particular transactions or accounting principle, the consulting matters, and the results for the possible opinions signed and issued in the financial report before the appointment | None |
| The successor accountant's written opinion of on the former accountant's different opinions | None |

### (III) The former CPA's reply towards Paragraphs 6-1 and 6-2-3 of Article 10 of the principle: Not applicable.

## VII. The Company's Chairman, General Manager, or any managerial officer in charge of finance or accounting matters has held a position at its CPA's accounting firm or at an affiliated enterprise in the most recent year: None.

## VIII. Equity transfer or changes in equity pledge of Directors, Supervisors, managerial officers, or shareholders holding more than 10% of the Company's shares in the most recent year up to the publication date of the Annual Report

(I) Change in the equities held by the Directors, Supervisors, managerial officers, and major shareholders

Date: April 21, 2019 (book closure date); Unit: Share

| Title | Name | Year of 2018 | | As of April 20, 2019 | | Remark |
|---|---|---|---|---|---|---|
| | | Addition (reduction) of shares held | Addition (reduction) of shares pledged | Addition (reduction) of shares held | Addition (reduction) of shares pledged | |
| Chairman | Lin, Yan-Shen | 50,000 | 0 | 187,000 | 1,200,000 | |
| Director | Lin, Chun-Sheng | 0 | 0 | 0 | 0 | |
| Director | Hau, Hai-Yen | 0 | 0 | 0 | 0 | |
| Director | Ng Chor Wah Patrick | 75,000 | 0 | 0 | 0 | |
| Director | Chi-Yi Investment Co. Ltd. | (450,000) | 60,000 | 0 | 0 | |
| Indedpent Director | Wang, Yueh-Cheng | 0 | 0 | 0 | 0 | |
| Indedpent Director | Lee, Chun-Hsien | 0 | 0 | 0 | 0 | |
| Supervisors | Wong, Chi-Yin | 4,000 | 0 | 0 | 0 | |
| Supervisors | Wang, Ching-Hsiang | 0 | 0 | 0 | 0 | |
| Supervisors | Chen, Li-Ju | 0 | 0 | 0 | 0 | |
| Vice President | Liau, Jiann-Jong | 70,000 | 0 | 0 | 0 | |
| Vice President | Peng, Yu-Hsing | 25,000 | 0 | (40,000) | 0 | |
| Director, Operations Center | Chou, Chin-Lung | 35,000 | 0 | 0 | 0 | |
| Director, Research and Developing Center | Ho, Fang-Yuan | 12,000 | 0 | 0 | 0 | |
| Director, Department of Finance and Accounting | Teng, Yuan-Chang | 0 | 0 | 0 | 0 | |

Note 1: For shareholders who hold more than 10% of the Company's shares shall be noted as major shareholders and shall be listed separately.

(II) Stock transfer information: The counter-party of stock transfer who is also a related party in the most recent year and as of April 20, 2019: None.

(III) Stock pledging information: The counter-party of stock pledging who is also a related party in the most recent year and as of April 20, 2019: None.

## IX. Information on the top 10 shareholders of the Company who are identified as related parties, spouse, or relative within second-degree of kinship

| Name (Note 1) | Shares Held in Person | | Shares Held by Spouse and/or Minor Children | | Shares held in others' names | | The related party refers to relatives such as spouse, relatives within second-degree of kinship that is defined in Statement of Financial Accounting Standards No.6. Their titles, names, and relationship. (Note 3) | | Remark |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Percentage | Number of Shares | Percentage | Number of Shares | Percentage | Name (or individual) | Relationship | |
| Lin, Yan-Shen | 2,512,000 | 3.12% | 510,000 | 0.63% | 0 | 0% | Lin, Chun-Sheng | Brother | |
| Lin, Chun-Sheng | 1,905,743 | 2.37% | 60,000 | 0.07% | 0 | 0% | Lin, Yan-Shen | Brother | |
| Name (Note 1) | Shares Held in Person | | Shares Held by Spouse and/or Minor Children | | Shares held in others' names | | The related party refers to relatives such as spouse, relatives within second-degree of kinship that is defined in Statement of Financial Accounting Standards No.6. Their titles, names, and relationship. (Note 3) | | Remark |
| | Number of Shares | Percentage | Number of Shares | Percentage | Number of Shares | Percentage | Name (or individual) | Relationship | |
| Labor insurance fund | 1,411,824 | 1.75% | 0 | 0% | 0 | 0% | None | None | |
| New labor pension fund | 1,410,243 | 1.75% | 0 | 0% | 0 | 0% | None | None | |
| E. Sun Bank was commissioned to manage the investor account of Ng Chor Wah Patrick | 1,397,139 | 1.74% | 0 | 0% | 0 | 0% | None | None | |
| National Pension Insurance Fund | 1,269,283 | 1.58% | 0 | 0% | 0 | 0% | None | None | |
| LGT Bank (Singapore) Ltd. in the custody of Standard Chartered | 977,461 | 1.21% | 0 | 0% | 0 | 0% | None | None | |
| Li, Chen-He | 959,943 | 1.19% | 0 | 0% | 0 | 0% | None | None | |
| LIN Deqiong | 936,461 | 1.16% | 0 | 0% | 0 | 0% | None | None | |
| Wong, Chi-Yin | 804,993 | 1.00% | 0 | 0% | 0 | 0% | None | None | |

Note 1: Please list the top 10 shareholders; the name of corporate shareholders and their respective representatives shall be listed respectively.

Note 2: The calculation of shareholding ratio shall indicate the percentage of shares held in the person's own name or in the name of spouse, minor children, or others.

Note 3: The relationships between the aforementioned shareholders, including corporate and natural persons, shall be disclosed based on the Regulations Governing the Preparation of Financial Reports by Issuers adopted by the Company.

## X. Information on the number of shares in a single enterprise re-invested by the Company, any of the Company's Directors, Supervisors and managerial officers or a company directly or indirectly controlled by the Company and consolidated percentage of shareholding

December 31, 2018

Unit: shares

| Re-investments in other companies (Note 1) | The Company's investments | | Investments of Directors, Supervisors, Managers, and directly or indirectly controlled businesses | | Combined investments | |
|---|---|---|---|---|---|---|
| | Number of Shares | Shareholding percentage (%) | Number of Shares | Shareholding percentage (%) | Number of Shares | Shareholding percentage (%) |
| United Medical (B.V.I) Co. (Note 2) | 0 | 0 | 0 | 0 | 0 | 0 |
| Lemax Co.,Ltd(Note 2) | 0 | 0 | 0 | 0 | 0 | 0 |
| UOC America Holding Corporation | 7,500 (Note 3) | 100 | 0 | 0 | 7,500 | 100 |
| UOC USA, INC. | 0 | 0 | 1,500 (Note 4) | 100 | 1,500 | 100 |
| UOC Europe Holding SA | 11,500 (Note 5) | 96 | | | 11,500 | 96 |
| United Orthopedic Corporation (Suisse) SA | | | 1,550 (Note 5) | 100 | 1,550 | 100 |
| United Orthopedic Corporation (France) | | | 6,900 (Note 6) | 100 | 6,900 | 100 |
| United Biomech Japan | 2,040 (Note 7) | 53 | | | 2,040 | 53 |
| A-Spine Asia Co., Ltd. | 12,172,400 (Note 8) | 99.4 | | | 12,172,400 | 99.4 |
| Boiling Medical Co., Ltd. | | | 480,000 (Note 9) | 100 | 480,000 | 100 |

Note 1: The investments made by the Company under the equity method

Note 2: Settlement was completed on September 30, 2018.

Note 3: The face value of each share is USD 1,000

Note 4: The face value of each share is USD 5,000

Note 5: The face value of each share is CHF 1,000

Note 6: The face value of each share is EUR 1,000

Note 7: The face value of each share is JPY 50,000

Note 8: The face value of each share is TWD 10, with a subscription price of TWD 60 per share

Note 9: The face value of each share is TWD 10

# Chapter 4 Funding Status

## I. Capital and shares

### (I) Source of Capital

| Month/Year | Par Value | Authorized Capital | | Paid-in Capital | | Remark | | |
|---|---|---|---|---|---|---|---|---|
| | | Shares | Amount | Shares | Amount | Sources of Capital | Capital Increased by Assets Other than Cash | Other |
| 1993.02 | 10 | 11,000,000 | 110,000,000 | 2,750,000 | 27,500,000 | Founding capital 25,000,000 | Technical stocks 2,500,000 | -- |
| 1994.08 | 10 | 11,225,000 | 112,250,000 | 11,225,000 | 112,250,000 | Capital injection 77,250,000 | technical stocks 7,500,000 | (83) Official Letter No. 12643 |
| 1997.03 | 10 | 11,225,000 | 112,250,000 | 5,612,500 | 56,125,000 | Capital reduction to compensate for losses (56,125,000) | None | (86) Official Letter No. 05947 |
| 1997.03 | 15 | 11,612,500 | 116,125,000 | 11,612,500 | 116,125,000 | Capital injection 53,630,000 | Debt-equity swap 6,370,000 | (86) Official Letter No. 05947 |
| 1998.02 | 10 | 18,612,500 | 186,125,000 | 18,612,500 | 186,125,000 | Capital injection 59,980,000 | Debt-equity swap 10,020,000 | -- |
| 1998.12 | 20 | 30,000,000 | 300,000,000 | 22,612,500 | 226,125,000 | Capital injection 40,000,000 | None | (87) Official Letter No. 029827 |
| 2004.09 | 13 | 30,000,000 | 300,000,000 | 25,462,500 | 254,625,000 | Capital injection 28,500,000 | None | FSC Official Letter No. 0930136711 |
| 2006.08 | 11.50 | 40,000,000 | 400,000,000 | 33,962,500 | 339,625,000 | Capital injection 85,000,000 | None | FSC Official Letter No. 0950111098 |
| 2007.10 | 45 | 60,000,000 | 600,000,000 | 38,562,500 | 385,625,000 | Capital injection 46,000,000 | None | FSC Official Letter No. 0960042265 |
| 2008.12 | 9.60 | 60,000,000 | 600,000,000 | 42,362,500 | 423,625,000 | Private placement capital raise 38,000,000 | None | -- |
| 2009.06 | 20.60 | 60,000,000 | 600,000,000 | 46,362,500 | 463,625,000 | Private placement capital raise 40,000,000 | None | -- |
| 2012.04 2012.08 | - | 60,000,000 | 600,000,000 | 46,362,500 | 463,625,000 | Supplemental public issuance of privately-placed ordinary shares 38,000,000/ 40,000,000 | None | FSC Official Letter No. 1010012282/ FSC Official Letter No. 1010037604 |
| 2013.01 | 30 | 60,000,000 | 600,000,000 | 53,362,500 | 533,625,000 | Capital injection 70,000,000 | None | FSC Official Letter No. 1010057730 |

| Month/Year | Par Value | Authorized Capital | | Paid-in Capital | | Remark | | |
|---|---|---|---|---|---|---|---|---|
| | | Shares | Amount | Shares | Amount | Sources of Capital | Capital Increased by Assets Other than Cash | Other |
| 2014.12 | 40.25 | 60,000,000 | 600,000,000 | 55,976,119 | 559,761,190 | Unsecured convertible bonds 26,136,190 | None | FSC Official Letter No. 10100577301 |
| 2015.7 | 40.25 | 60,000,000 | 600,000,000 | 56,202,200 | 562,022,000 | Unsecured convertible bonds 2,260,810 | None | FSC Official Letter No. 10100577301 |
| 2015.7 | - | 60,000,000 | 600,000,000 | 56,774,200 | 567,742,000 | New restricted employee shares 5,720,000 | None | FSC Official Letter No. 1040025385 |
| 2015.11 | 39.3 | 100,000,000 | 1,000,000,000 | 58,412,868 | 584,128,680 | Unsecured convertible bonds 16,386,680 | None | FSC Official Letter No. 10100577301 |
| 2015.11 | 46 | 100,000,000 | 1,000,000,000 | 71,212,868 | 712,128,680 | Capital injection 128,000,000 | None | FSC Official Letter No. 1040035809 |
| 2015.12 | - | 100,000,000 | 1,000,000,000 | 71,204,868 | 712,048,680 | Cancellation of new restricted employee shares (80,000) | None | FSC Official Letter No. 1040025385 |
| 2016.2 | 39.3 | 100,000,000 | 1,000,000,000 | 71,746,847 | 717,468,470 | Unsecured convertible bonds 5,419,790 | None | FSC Official Letter No. 10100577301 |
| 2017.8 | - | 100,000,000 | 1,000,000,000 | 71,724,847 | 717,248,470 | Cancellation of new restricted employee shares (220,000) | None | FSC Official Letter No. 1040025385 |
| 2017.10 | 48 | 100,000,000 | 1,000,000,000 | 79,724,847 | 797,248,470 | Capital injection 80,000,000 | None | FSC Official Letter No. 1060025497 |
| 2017.11 | - | 100,000,000 | 1,000,000,000 | 79,712,847 | 797,128,470 | Cancellation of new restricted employee shares (120,000) | None | FSC Official Letter No. 1040025385 |
| 2018.4 | - | 100,000,000 | 1,000,000,000 | 79,700,847 | 797,008,470 | Cancellation of new restricted employee shares (120,000) | None | FSC Official Letter No. 1040025385 |
| 2018.7 | - | 100,000,000 | 1,000,000,000 | 80,450,847 | 804,508,470 | New restricted employee shares 7,500,000 | None | Financial Supervisory Securities Issuance No. 1,070,323,957 |

| Type of Stock | Authorized Capital | | | Remark |
|---|---|---|---|---|
| | Outstanding Shares (Note) | Unissued Shares | Total | |
| Common stocks | 80,450,847 | 19,549,153 | 100,000,000 | Listed stocks |

Information for shelf registration: Not applicable.

(II) Shareholder Structure

| Status of Shareholders | Government agencies | Financial institutions | Other judicial persons | Foreign institutions and foreign persons | Natural persons | Total |
|---|---|---|---|---|---|---|
| Number of Shareholders | 0 | 0 | 75 | 36 | 20,147 | 20,258 |
| Shareholding (shares) | 0 | 0 | 8,244,077 | 4,118,790 | 68,087,980 | 80,450,847 |
| Percentage % | 0.00% | 0.00% | 10.25% | 5.12% | 84.63% | 100.00% |

(III) Shareholding Distribution Status (Par Value Per Share: NT$10)

1. Common stocks

Base date: April 21, 2019

| Class of Shareholding (Unit: Share) | Number of Shareholders | Shareholding (Shares) | Shareholding percentage (%) |
|---|---|---|---|
| 1-999 | 11,466 | 405,132 | 0.50% |
| 1,000-5,000 | 6,729 | 13,162,366 | 16.36% |
| 5,001-10,000 | 988 | 7,436,275 | 9.24% |
| 10,001-15,000 | 371 | 4,594,862 | 5.71% |
| 15,001-20,000 | 171 | 3,044,794 | 3.78% |
| 20,001-30,000 | 191 | 4,735,965 | 5.89% |
| 30,001-40,000 | 80 | 2,801,047 | 3.48% |
| 40,001-50,000 | 64 | 2,933,971 | 3.65% |
| 50,001-100,000 | 103 | 7,231,230 | 8.99% |
| 100,001-200,000 | 48 | 6,855,969 | 8.52% |
| 200,001-400,000 | 24 | 6,633,836 | 8.25% |
| 400,001-600,000 | 9 | 4,241,085 | 5.27% |
| 600,001-800,000 | 4 | 2,789,225 | 3.47% |
| 800,001-1,000,000 | 4 | 3,678,858 | 4.57% |
| 1,000,001 or over | 6 | 9,906,232 | 12.31% |
| Total | 20,258 | 80,450,847 | 100.00% |

2. Preferred stocks: not applicable.

## (IV) List of Major Shareholders

| Shareholder's Name | Shareholding (shares) | Shareholding percentage (%) |
|---|---|---|
| Lin, Yan-Shen | 2,512,000 | 3.12% |
| Chun-Sheng Lin | 1,905,743 | 2.37% |
| Labor insurance fund | 1,411,824 | 1.75% |
| 2nd-tier new labor pension fund | 1,410,243 | 1.75% |
| E. Sun Bank as custodian of the investor account of Ng Chor Wah Patrick | 1,397,139 | 1.74% |
| National Pension Insurance Fund | 1,269,283 | 1.58% |
| Standard Chartered as custodian of LGT Bank (Singapore) Ltd. | 977,461 | 1.21% |
| Li, Chen-He | 959,943 | 1.19% |
| Lin, Te-Chien | 936,461 | 1.16% |
| Wong, Chi-Yin | 804,993 | 1.00% |

## (V) Market Price, Net Worth, Earnings, and Dividends per Share in the Past 2 Years

| Items \ Year | | | 2017 | 2018 | As of March 31 of the current year (Note 8) |
|---|---|---|---|---|---|
| Market Price per Share (Note1) | Highest Market Price | | 76.80 | 72.90 | 53.10 |
| | Lowest Market Price | | 60.10 | 35.60 | 43.30 |
| | Average Market Price | | 69.00 | 60.05 | 48.07 |
| Net Worth per Share (Note 2) | Before Distribution | | 30.35 | 28.34 | 28.51 |
| | After Distribution | | 28.97 | Pending the resolution of shareholders' meeting | -- |
| Earnings per Share | Weighted Average Shares | | 73,089,696 | 79,408,496 | 79,700,847 |
| | Earnings per share (Note 3) | | 1.78 | 1.61 | 0.19 |
| Dividends per Share | Cash Dividend | | 1.25955590 | Pending the resolution of shareholders' meeting | -- |
| | Stock Dividends | Dividends from Retained Earnings | 0 | Pending the resolution of shareholders' meeting | -- |
| | | Distribution from Capital Surplus | 0 | Pending the resolution of shareholders' meeting | -- |
| | Accumulated undistributed dividend (note 4) | | 0 | 0 | -- |
| Return on Investment | P/E Ratio (Note 5) | | 38.76 | 37.30 | -- |
| | P/E Ratio (Note 6) | | 54.78 | Pending the resolution of shareholders' meeting | -- |
| | Cash dividend yield (Note 7) | | 1.83% | Pending the resolution of shareholders' meeting | -- |

＊ If shares are distributed in connection with capitalization of earnings or capital surplus, disclose additionally information on market prices and cash dividends retroactively adjusted based on the number of shares after distribution.

Note 1: The highest and lowest market values for each year are listed. The average market value for each year is calculated based on the turnover and total volume.

Note 2: Please fill based on the number shares issued by the end of the year and the distribution resolved by the shareholders' meeting for the subsequent year.

Note 3: If retroactive adjustment is needed due to stock dividends, earnings per share before and after the adjustment should be listed.

Note 4: If the equity securities are issued under the condition that undistributed dividends for the current year will be accumulated to the year with a surplus, outstanding dividends as of the current year shall be disclosed separately.

Note 5: Price / Earnings Ratio = Average Market Price / Earnings per Share.

Note 6: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share.

Note 7: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price.

Note 8: Net worth per share and earnings per share shall be filled in with the information audited (attested) by the CPA as of the most recent quarter up to the printing date of the annual report. The remaining fields shall be filled with the information of the year as of the printing date of the annual report.

## (VI) Dividend Policy and Implementation Status:

(1) Dividend Policy and Implementation:

If earnings are available for distribution at the end of a fiscal year ("earnings" refers to the pre-tax profit minus the profit before the distribution of employee compensation and remuneration of directors and supervisors), 12% shall be allocated as employee compensation, and no more than 3% shall be allocated as remuneration of directors and supervisors. However, the Company's accumulated losses shall have been covered (including the adjustment of the undistributed earnings).

The Company may only distribute the employees' compensation and remuneration of directors and supervisors in cash by a board resolution and reported to the shareholders' meeting.

If earnings are available for distribution at the end of a fiscal year, 10% of net earnings – that is, after offsetting any loss from prior year(s) (including the adjusted amount of undistributed earnings) and paying all taxes and dues – shall be set aside as legal reserve and appropriated in accordance with the Securities Exchange Law. However, this is not applicable when the legal reserve has reached the amount of the Company's paid-in capital. 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.

(2) The distribution of dividends proposed at this shareholders' meeting: The distribution of cash dividends for 2018 is proposed to be distributed as cash dividend per share. The amount of NT$1.25620701 is proposed to be the distributed as cash dividend for 2018 along with NT$0.74379299 from the additional paid-in capital. The proposal was passed by the board of directors on March 18th, 2019. It will be executed in accordance with relevant regulations pending the resolution of the shareholders' meeting on June 19th, 2019.

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

(VII) Impact on the Company's operating performance and earnings per share (EPS) for the stock dividends proposed by this shareholders' meeting: not applicable.

(VIII) Compensation of Employees, Directors and Supervisors

(1) Information Relating to Compensation of Employees, Directors and Supervisors in the Articles of Incorporation:

Article 20 of the Articles of Incorporation: If earnings are available for distribution at the end of a fiscal year ("earnings" refers to the pre-tax profit minus the profit before the distribution of employee compensation and remuneration of directors and supervisors), 12% shall be allocated as employee compensation, and no more than 3% shall be allocated as remuneration of directors and supervisors. However, the Company's accumulated losses shall have been covered (including the adjustment of the undistributed earnings).

The Company may only distribute the employees' compensation and remuneration of directors and supervisors in cash by a board resolution and reported to the shareholders' meeting.

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

The basis for estimating the amount of employee, director, and supervisor compensation: in accordance with Article 20 of the Articles of Incorporation, it is based on the earnings of 2018 ("earnings" refers to the pre-tax profit minus the profit before the distribution of employee compensation and remuneration of directors and supervisors).

Accounting treatment in case there are discrepancies between the basis for estimating the number of shares allocated as employees' compensation distributed as stocks and the actual distributed amount: listed as profits and losses of 2019.

Information of 2018 Distribution of Compensation of Employees, Directors and Supervisors and, if there is any discrepancy between the actual distribution and the recognized employee, director, or supervisor compensation, additionally the discrepancy, cause, and how it is treated.

Unit: NTD

| | Recognized compensation | Actual distributed | Discrepancy | Cause and treatment |
|---|---|---|---|---|
| Employees' compensation | 17,024,742 | 17,024,742 | 0 | No discrepancy |
| Remuneration of Directors and Supervisors' | 4,256,186 | 4,256,186 | 0 | |
| Total | 21,280,928 | 21,280,928 | 0 | |

Note: Employees, Directors and Supervisors' compensation is distributed in cash.

(3) Distribution of Compensation of Employees Approved in the Board of Directors Meeting:

1. The Board of Directors proposed to distribute employees', directors' and supervisors' compensation in through cash: The Board of Directors has determined to distribute NT$17,025,000 as the employees' cash bonus, and NT$4,256,000 as the Directors' and Supervisors' remuneration from earnings of 2018.
2. The amount of any employee compensation distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee compensation: no employee compensation was distributed in stock for 2018.

(4) Information of the previous year's Distribution of Compensation of Employees, Directors and Supervisors (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed) and, if there is any discrepancy between the actual distribution and the recognized employee, director, or supervisor compensation, additionally the discrepancy, cause, and how it is treated:

There is no discrepancy between the actual distribution and the recognized employee, director, or supervisor compensation for the previous year (2017).

Unit: NTD

| Distribution | Distribution resolved by the shareholders' meeting and the Board of Directors | Actual distribution | Discrepancy |
|---|---|---|---|
| Employees' compensation | 24,762,042 | 24,762,042 | - |
| Remuneration of Directors and Supervisors' | 6,199,010 | 6,199,010 | - |
| Total | 30,961,052 | 30,961,052 | - |

(IX) Buyback of Treasury Stock: None.

## II. Issuance of corporate bonds

### (I) Corporate Bonds

Application of phase II of the Company's issuance of domestic unsecured corporate bonds was approved by Financial Supervisory Commission's notice No. 10600254971 on July 18th, 2017 to be effective on the same date. The total amount issued was NT$400 million. The trading began at the operation securities exchange on August 11th, 2017 based on the notice No. 10600214142 issued by Taipei Exchange on August 8, 2017.

<table>
<tr><td colspan="2">Corporate Bond Type</td><td>Unsecured Corporate Bonds, Phase II</td></tr>
<tr><td colspan="2">Issue Date</td><td>August 11, 2017</td></tr>
<tr><td colspan="2">Denomination</td><td>NT$100,000</td></tr>
<tr><td colspan="2">Issuance and trading place</td><td>R.O.C.</td></tr>
<tr><td colspan="2">Par Value</td><td>Issued at 100% of face value</td></tr>
<tr><td colspan="2">Total</td><td>NT$400,000,000</td></tr>
<tr><td colspan="2">Interest rate</td><td>Coupon rate 0%</td></tr>
<tr><td colspan="2">Term</td><td>3 years. Maturity date: August 11th, 2020</td></tr>
<tr><td colspan="2">Guarantee agency</td><td>None</td></tr>
<tr><td colspan="2">Consignee</td><td>Taipei Fubon Commercial Bank Co., Ltd.</td></tr>
<tr><td colspan="2">Underwriter</td><td>Fubon Securities Co., Ltd.</td></tr>
<tr><td colspan="2">Certified lawyer</td><td>Chiu, Ya-Wen, Attorney at law</td></tr>
<tr><td colspan="2">CPA</td><td>PwC Taiwan<br>Chang, Chih-Ming; Huang, Chien-Che</td></tr>
<tr><td colspan="2">Repayment method</td><td>Effective period: 3 years<br>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.</td></tr>
<tr><td colspan="2">Outstanding principal</td><td>NT$0</td></tr>
<tr><td colspan="2">Terms of redemption or advance repayment</td><td>Refer to the issuance and conversion methods</td></tr>
<tr><td colspan="2">Restrictive Clause</td><td>None</td></tr>
<tr><td colspan="2">Name of credit rating agency, rating date, rating of corporate bonds</td><td>None</td></tr>
<tr><td rowspan="2">Other rights attached</td><td>As of the printing date of this annual report, converted amount of (exchanged or subscribed) ordinary shares, GDRs or other securities</td><td>0</td></tr>
<tr><td>Issuance and conversion (exchange or subscription) method</td><td>Refer to the issuance and conversion methods</td></tr>
<tr><td colspan="2">Issuance and conversion, exchange or subscription method, issuing condition dilution, and impact on existing shareholders' equity</td><td>The total amount of convertible corporate bonds that have been issued this time is NT$400,000,000. 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. Therefore, it should not have any major impact on the interests of current shareholders.<br>The coupon rate of the corporate bond is 0% and its conversion price is issued at a premium. Therefore, there should no negative impact on the interests of shareholders.</td></tr>
<tr><td colspan="2">Transfer agent</td><td>N/A</td></tr>
</table>

### (2) Convertible Bonds

| Corporate bond type (Note 1) | | Unsecured Corporate Bonds, Phase II | |
|---|---|---|---|
| Items / Year | | 2018 | As of March 31, 2019 |
| Market price of the convertible bond (Note 2) | Highest | 0 | 0 |
| | Lowest | 0 | 0 |
| | Average | 0 | 0 |
| Convertible Price | | 0 | 0 |
| Issue (placement) date and conversion price at issuance | | August 11, 2017<br>NT$77.30 | August 11, 2017<br>NT$77.30 |
| Conversion methods (Note 3) | | Issuing of new stocks | Issuing of new stocks |

Note 1: The amount of rows are adjusted in accordance with the actual entries.

Note 2: If the offshore corporate bonds have multiple trading locations, they should be listed in accordance with the trading locations.

Note 3: Delivery of issued shares or issuance of new shares.

Note 4: The information of the current year as of the printing date of the annual report shall be filled.

## III. Issuance of preferred stocks: None.

## IV. Issuance of overseas depositary receipts: None.

## V. Issuance of employees' stock option certificate and new restricted employee shares

(I) The issuance of employees' stock options shall record the following:

(1) The company's employees' stock options that are yet to be matured shall disclose the issuance as of the printing date of the annual report and the impact of the rights of shareholders. The private placement of employees stock options shall be highlighted: none.

(2) The Name, Acquisition and Subscription of Executives Receiving Employee Stock Options and the Top Ten Employees with Stock Options. None

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

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

### New restricted employee shares

March 31, 2019

| Type of New Restricted Employee Shares (Note 1) | Second Tranche<br>New restricted employee shares |
|---|---|
| Effective Date | July 3, 2018 |
| Issue Date (Note 2) | August 7, 2018 |
| Number of New Restricted Employee Shares Issued | 750,000 |
| Issued Price | 0 |
| New Restricted | 0.93% |

<table>
<tr><td>Employee Shares as a Percentage of Shares Issued</td><td></td></tr>
<tr><td>Vesting Conditions of New Restricted Employee Shares</td><td>
(I) Managers that received the new restricted employee shares approved by the Board of Directors:<br>
1. Employees who are still serving in the company three years after the capital increase base date.<br>
2. The employees' annual performance evaluation results rank in A and above.<br>
3. The Company's annual consolidated operating income growth of 15% and post-tax net profit growth of 20% are used for the performance evaluation indicator. The average standard value ratio reached in three years is taken as the vested share ratio. If the proportion of the vested shares is greater than 100%, it is calculated as 100%. (The consolidated revenue in each year may not be lower than 12% and the net profit after tax may not be lower than 16%).
<table>
<tr><td colspan="2">Assessed items</td><td>YOY revenue</td><td>YOY profit after tax</td></tr>
<tr><td colspan="2">Assessment Standard Value</td><td>15%</td><td>20%</td></tr>
<tr><td colspan="2">Lowest Standard Value</td><td>12%</td><td>16%</td></tr>
<tr><td rowspan="3">Assessment Year</td><td>2018</td><td>● If yoy <12%, then x1 = 0<br>● If yoy >=12%, then x1=yoy/15%</td><td>● If yoy <16%, then x2=0<br>●If yoy >=16%, then x2=yoy/20%</td></tr>
<tr><td>2019</td><td>● If yoy <12%, then x3 = 0<br>● If yoy >=12%, then x3=yoy/15%</td><td>● If yoy <16%, then x4=0<br>● If yoy >=16%, then x4=yoy/20%</td></tr>
<tr><td>2020</td><td>● If yoy <12%, then x5= 0<br>● If yoy >=12%, then x5=yoy/15%</td><td>● If yoy <16%, then x6=0<br>● If yoy >=16%, then x6=yoy/20%</td></tr>
<tr><td>Vested share ratio (z)</td><td colspan="3">z =Σxi / 6, ( i=1-6, if z>=100%, it is calculated as100%)</td></tr>
</table>
Note 1: Vested share ratio is round up to the second digit.<br>
Note 2: The vested shares are round up to the integer.<br>
(II) R&D personnel that receive the new restricted employee shares approved by the Board of Directors:<br>
Employees who are still serving in the company three years after the capital increase base date, and the employees' annual performance evaluation ranks in and above. The vested share ratio is: 100%.
</td></tr>
<tr><td>Restriction of Rights on New restricted employee shares</td><td>
(I) After receiving new restricted employee shares and before meeting vesting conditions, employees shall not sell, pledge, transfer, endow, or dispose of the restricted employee shares in any means other than inheritance.<br>
(II) Shareholders' meeting voting rights: same with other common shares of the Company.<br>
(III) The option and right of interest of shareholders: same with other common stocks of the company.<br>
(IV) The right to participate, propose, speak and vote at shareholders' meeting is delegated and executed by the guarantee institution in accordance with the contract.<br>
(V) The new restricted employee shares shall be delivered to the guarantee institution after they have been issued. The employees may not request the new restricted employee shares to be returned for any reason before the vested conditions are met.
</td></tr>
<tr><td>Custody of the new restricted employee shares</td><td>Entrusted to Taipei Fubon Commercial Bank</td></tr>
<tr><td>The Procedures for Handling Allocated or Subscribed New Shares without Meeting the Vested</td><td>If the employees violate the Regulations, labor contract or work guidelines that receive a major warning or above, or if the criminal law is violated and the judgment has been confirmed, the new shares of the employee's rights that are allocated but have not yet reached the vested conditions are deemed to have not met the vested conditions on the date of the fact, and the Company has the right</td></tr>
</table>

| | |
|---|---|
| Conditions | to withdraw and cancel the shares according to law. However, the stock and cash dividend received during the period will be given to the employees unconditionally. |
| Recovered or Purchased New Restricted Employee Shares | 0 |
| Number of new shares that the with the restricted rights lifted | 0 |
| Number of new shares that the with the restricted rights not yet lifted | 750,000 |
| Proportion of new restricted shares with restricted rights not yet lifted to the total number of issued shares (%) | 0.93% |
| The impact on shareholders' right | The 750,000 new restricted employee shares that are issued at this time are unconditionally issued. The employees must still be serving the company three years after the date of capital base increase. The current ratio of new restricted employee shares to the total shares issued is 0.93%, and it shall not have any material impact on the current shareholders' rights. |

Note 1: The amount of rows are adjusted in accordance with the actual entries.

Note 2: Shares with different issuance date shall be filled separately.

(2) Name and Status Managers Receiving Employee Stock Options and the Top Ten Employees with Stock Options up to the Printing Date of the Annual Report.

## Name and Status Managers Receiving Employee Stock Options and the Top Ten Employees with Stock Options

March 31, 2019

| | Title (Note 1) | Name | Number of new restricted employee shares | Percentage of the new restricted employee shares to total shares issued | Restricted rights have been lifted (Note 2) | | | | Restricted rights have not been lifted (Note 2) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of shares with restricted rights | Par Value | Issued Amount | Percentage of number of share with restricted rights lifted to total shares issued | Number of shares with restricted rights not yet lifted | Par Value | Issued Amount | Percentage of shares with restricted rights not yet lifted to total shares issued |
| Manger | President | Lin, Yan-Shen | 330,000 | 0.41% | 0 | 10 | 0 | 0% | 330,000 | 10 | 0 | 0.41% |
| | Vice President | Liao, Chien-Chong | | | | | | | | | | |
| | Vice President | Peng, Yu-Hsing | | | | | | | | | | |
| | Director, Research and Development Center | Ho, Fang-Yuan | | | | | | | | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Director, Operating Center | Chou, Ching-Long | | | | | | | | | |
| | Director, Department of Finance and Accounting | Deng, Yuan-Chang | | | | | | | | | |
| | Manager, Department of Finance and Accounting | Pan, Yun-Hun | | | | | | | | | |
| | Manager, Department of Information Management | Kuo, Yao-Chong | | | | | | | | | |
| | Manager, Department of Production Management at Hsinchu | Lin, Hsiu-Chun | | | | | | | | | |
| | Manager, Department of Manufacturing Development | Lu, Yu-Shen | | | | | | | | | |
| Employees (Note 3) | Project Manager, R&D Department | Lu, Cheng-Kuang | 168,000 | 0.21% | 0 | 10 | 0 | 0% | 168,000 | 10 | 0 | 0.21% |
| | Manager, Mechanical Development Department | Pao, Shou-Heng | | | | | | | | | |
| | Audit Manager, General Manager's Office | Liao, Wei-Chan | | | | | | | | | |
| | Manager, Department of Administration | Chuang, Ya-Yen | | | | | | | | | |
| | Manager, Customer Service | Wang, Yi-Yung | | | | | | | | | |
| | Manager, International Business Department | Wang Ching-Hsi | | | | | | | | | |

Note 1: The name and the title of the managers and employees shall be disclosed individually (those who have left the company or passed away shall be noted), but the stock options received and subscribed may be disclosed in a consolidated method.

Note 2: The amount of rows are adjusted in accordance with the actual entries.

Note 3: The top ten employees who hold the new restricted employee shares refer to employees besides managers.

Note 4: The total number of stocks issued are the number of stocks registered at Ministry of Economic Affairs.

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

## VII. Implementation of capital application plan

As of the first quarter of 2019, the Company's uncompleted public issue or private placement of securities, and for such issues and placements that were completed in the most recent three years but have not yet fully yielded the planned benefits include the issuance of domestic unsecured convertible bonds and capital increase by cash in 2017 worth NT$800,000,000 and the issuance of capital increase by cash of NT$588,800,000. The plan and execution are explained below:

- **Cash Capital Increase in 2017**

(I) Plan:

1. The competent authority's approval date and document number:

   FSC Letter No.10600254971 and No. 1060025497 dated July 18, 2017.

2. The total capital needed for this plan: NT$800,000,000.

3. Sources of funds:

   (1) Issued 8,000,000 shares of common stock for this capital increase at the par value of NT$10 each. The preliminary issue price per share was set at NT$50. The total fund raised was expected to be NT$400,000,000.

   (2) Issued 4,000 unsecured convertible corporate bonds for the second time in Taiwan, each with a face value of NT$100,000 with a period of three years. The nominal interest rate is 0%, and the total issued amount was NT$400,000,000.

   (3) If the par value of cash capital increase by issuance of new stocks is adjusted due to market changes due to market changes, the insufficient funds will be supplemented by own funds or bank loans. If the actual amount raised exceeds the total amount of funds required for this plan, the excess will be allocated as working capital.

4. Progress of the project item and fund application:

Unit: NT$1,000

<table>
<tr><th rowspan="3">Project item</th><th rowspan="3">Expected completion date</th><th rowspan="3">Total capital needed</th><th colspan="4">Expected fund application schedule</th></tr>
<tr><th colspan="4">2017</th></tr>
<tr><th>First Quarter</th><th>Second Quarter</th><th>Third Quarter</th><th>Fourth Quarter</th></tr>
<tr><td>Reinvestment</td><td>3rd Quarter of 2017</td><td>613,440</td><td>(Note) 89,739</td><td>(Note) 238,679</td><td>285,022</td><td>-</td></tr>
<tr><td>Supplementing the working capital</td><td>Fourth Quarter, 2017</td><td>186,560</td><td>-</td><td>-</td><td>-</td><td>186,560</td></tr>
<tr><td colspan="2">Total</td><td>800,000</td><td>89,739</td><td>238,679</td><td>285,022</td><td>186,560</td></tr>
</table>

Note: Bank loans and own funds would be employed first due to time constraints. After the completion of fund raising, the money would be used to repay bank loans and replenish working capital.

5. Changes in plan, reasons and benefits: Not applicable.

6. The date on which the information regarding this plan was entered into the reporting website appointed by the Financial Supervisory Commission: July 19, 2017.

7. Expected benefits:

   (1) Reinvestment

The Company acquired 100% equity of A-Spine Asia Co., Ltd. (A-Spine Asia) and introduced its spinal products to our existing channels. We thus went from the artificial joint sector into traumatology and completed our product lines. We can provide customers with one-stop services and offer complementary products. The total recognized investment benefits between 2017-2027 were NT$672,657,000 with a payback period of 9.95 years.

(2) Working capital replenishment

The increase in working capital is mainly for future business growth. If we apply the weighted average borrowing rate from financial institutions of 1.14%, the Company can save NT$355,000 in interest expense in 2017, and NT$2,127,000 annually from 2018 onwards. Moreover, it improves the Company's indicators concerning financial structure and solvency, reduces the degree of dependence on bank loans and lowers financial risks. It helps to enhance the Company's overall operations and competitiveness.

(II) Status of implementation:

Unit: NT$1,000

<table>
<tr><th>Project Items</th><th colspan="2">Implementation status</th><th>As of the fourth quarter of 2017</th><th>The reasons for exceeding or falling behind and the improvement plan</th></tr>
<tr><td rowspan="4">Reinvestment</td><td rowspan="2">Expenses</td><td>Predetermined</td><td>613,440</td><td rowspan="12">Completed on schedule so not applicable.</td></tr>
<tr><td>Actual</td><td>613,440</td></tr>
<tr><td rowspan="2">Implementation progress</td><td>Predetermined</td><td>100.00%</td></tr>
<tr><td>Actual</td><td>100.00%</td></tr>
<tr><td rowspan="4">Supplementing the working capital</td><td rowspan="2">Expenses</td><td>Predetermined</td><td>186,560</td></tr>
<tr><td>Actual</td><td>186,560</td></tr>
<tr><td rowspan="2">Implementation progress</td><td>Predetermined</td><td>100.00%</td></tr>
<tr><td>Actual</td><td>100.00%</td></tr>
<tr><td rowspan="4">Total</td><td rowspan="2">Expenses</td><td>Predetermined</td><td>800,000</td></tr>
<tr><td>Actual</td><td>800,000</td></tr>
<tr><td rowspan="2">Implementation progress</td><td>Predetermined</td><td>100.00%</td></tr>
<tr><td>Actual</td><td>100.00%</td></tr>
</table>

(III) Benefit Assessment:

(1) Reinvestment

The Company used bank loans to pay for the investment in A-Spine Asia Co., Ltd. (A-Spine Asia) due to time constrains. As of the fourth quarter of 2017, the loan has been repaid according to the plan.

The Company applied the funds raised through cash capital increase in the fourth quarter of 2017 to repay the bank loans for the investment in A-Spine Asia. A-Spine Asia generated profits in 2017 and 2018, as well as remaining profitable as of March 2018. Therefore, the benefits of acquiring the equity of A-Spine Asia are emerging.

(2) Working capital replenishment

The plan to increase capital to replenish the working capital has been completed. The approved preliminary price for the cash capital increase plan was NT$50, and the actual issuance price was NT$48 (the actual fund raised was NT$384,000,000). The shortage was covered by bank loans. The financial ratios in the table below show an obvious improvement after the capital increase. Moreover, the Company's 2018 operating revenue, gross profit and operating income increased to NT$1,789,376,000, NT$914,694,000 and NT$216,377,000 respectively. The increase is significant compared to the same period last year, showing the benefits of the working capital replenishment.

- **Cash Capital Increase in 2015**

(I) Plan:

1. The competent authority's approval date and document number: September 9, 2015 with FSC Letter No. 1040035809.
2. Total capital needed for this plan: NT$588,800,000.
3. Source of fund: Issued 12,800,000 shares of common stock for this capital increase at the par value of NT$10 per share. The issued price per share was 46 NTD, and the total amount of funds raised was NT$588,800,000.
4. Progress of the project item and fund application:

Unit: NT$1,000

| Project item | Total capital needed | Expected fund application schedule | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2015 | 2016 | | | | 2017 | |
| | | Fourth Quarter | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | First Quarter | Second Quarter |
| Plant Expansion | 179,000 | 6,550 | 51,760 | 38,330 | 57,495 | 14,320 | 10,545 | - |
| Purchase of Machinery and Equipment | 181,000 | - | - | 15,900 | 35,900 | 54,900 | 60,560 | 13,740 |
| Supplementing the working capital | 228,800 | 228,800 | - | - | - | - | | - |
| Total | 588,800 | 235,350 | 51,760 | 54,230 | 93,395 | 69,220 | 71,105 | 13,740 |

5. Changes in plan, reasons and benefits: Not applicable.
6. The date on which the information of this plan was entered into the reporting website appointed by Financial Supervisory Commission: September 9, 2015.
7. Expected benefits:

(1) The three-phase expansion of Kaohsiung plant and the purchase of machinery and equipment

A total of NT$360,000,000 was used in plant expansion and the purchase machinery and equipment in this capital increase. These funds are used in expanding the production capability of implant products (including hips and knees). It is expected that the increase of production capacity will grow with the revenue from 2018 onwards, supported by this three phase expansion of Kaohsiung plant. Therefore, the expected benefits are estimated base on the increase of revenue since 2018. It is estimated that the increased production capacity of HIP and KNEE after the expansion will be able to increase the sales volume of the implants. The increase of operating net profit after the expansion are estimated base on the average selling price, gross margin, marketing expenses and management fees with conservation. The expected fund recovery period is 4.462 years. The expected benefits are as follows:

Unit: Pieces, NT$1,000

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

Source: The Company

(2) Working capital replenishment

The reason for the Company to engage in cash capital increase to replenish the working capital is due to the needs for working capital in order to achieve continuous growth of operating income. The capital increase is conducted in cash to avoid the increase of operating risk due to the increase of debt ratio, or to reduce the profitability of the Company due to the increase in interest expenses. Moreover, the Company's current ratio and quick ratio are expected to increase after the plan has been completed. It will increase the Company's solvency and allow for a more flexible financial scheduling.

Unit: %

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

Note: The tables above are calculated based on the individual statements of 2013 and 2014

The fund raising of the Company is expected to be completed in November 2015. If it is entirely covered by bank loans, calculated by the Company's current average short-term borrowing rate of 2.12% for the first half of the year, it is estimated to save the cash outflow in interest expense of NT$4,851,000 per year.

(II) Status of implementation:

Unit: NT$1,000

<table>
<tr><td>Project Items</td><td colspan="2">Implementation status</td><td>A of the first quarter of 2018</td><td>The reasons for exceeding or falling behind and the improvement plan</td></tr>
<tr><td rowspan="4">Plant Expansion</td><td rowspan="2">Expenses</td><td>Predetermined</td><td>179,000</td><td rowspan="16">The approval letter and construction license from the Southern Taiwan Science Park Administration was obtained in February 2016. The fund utilization plan was postponed in accordance with the actual progress. It is expected that the plan will be completed after the final payment for the machinery and equipment in late April.</td></tr>
<tr><td>Actual</td><td>213,837</td></tr>
<tr><td rowspan="2">Implementation progress</td><td>Expected</td><td>100.00%</td></tr>
<tr><td>Actual</td><td>100.00%</td></tr>
<tr><td rowspan="4">Purchase of Machinery and Equipment</td><td rowspan="2">Expenses</td><td>Expected</td><td>181,000</td></tr>
<tr><td>Actual</td><td>151,255</td></tr>
<tr><td rowspan="2">Implementation progress</td><td>Expected</td><td>100.00%</td></tr>
<tr><td>Actual</td><td>83.57%</td></tr>
<tr><td rowspan="4">Supplementing the working capital</td><td rowspan="2">Expenses</td><td>Expected</td><td>228,800</td></tr>
<tr><td>Actual</td><td>228,800</td></tr>
<tr><td rowspan="2">Implementation progress</td><td>Expected</td><td>100.00%</td></tr>
<tr><td>Actual</td><td>100.00%</td></tr>
<tr><td rowspan="4">Total</td><td rowspan="2">Expenses</td><td>Expected</td><td>588,800</td></tr>
<tr><td>Actual</td><td>559,005</td></tr>
<tr><td rowspan="2">Implementation progress</td><td>Expected</td><td>100.00%</td></tr>
<tr><td>Actual</td><td>94.95%</td></tr>
</table>

(III) Benefit Assessment:

(1) The three-phase expansion of Kaohsiung plant and the purchase of machinery and equipment

The company is executing the plan in accordance with the schedule, and the benefit have started showing in 2018 in accordance with the schedule.

(2) Working capital replenishment

The plan replenish the working capital with cash capital increase has been completed. The financial ratios in the table below show an obvious improvement after the capital increase. The benefits of this working capital replenishment from cash capital increase are showing.

Unit: %

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

Note: The ratios of the tables above are calculated based on the individual statements of 2013, 2014, and 2015

# Chapter 5 Operational Highlights

## I. Business activities

### (I) Business Scope:

(1) Main areas of business operations

1. Research, development, production, manufacture and sales on the following products:
   - 1.1 Artificial orthopedic implants: including artificial joints, artificial bone plates, intramedullary rods, bone pins and so on.
   - 1.2 Orthopedic surgical equipment and its manufacturing equipment.
   - 1.3 Special metal and plastic materials.
2. The import, export and trade of aforementioned products.

(2) Revenue distribution

Unit: NT$1,000

| Major divisions | Total Sales in Year 2018 | (%) of Total Sales |
|---|---:|---:|
| Artificial joints | 1,840,402 | 78.9% |
| Spinal products | 410,852 | 17.6% |
| Other Products | 48,873 | 2.1% |
| OEM products | 32,120 | 1.4% |
| Total | 2,332,247 | 100.0% |

(3) Main products

1. Artificial hip joints: artificial hip joint, partial hip joint, Joint for large trochanteric fracture, Moore hip prosthesis, and customized artificial hip joints for individual tumor patients.
2. Artificial Knee Joint: Artificial knee replacement joint, revision knee replacement system, restricted artificial knee joint, and customized artificial knee joints for individual tumor patients.
3. Spine products: vertebral fixation devices.
4. Injury and other orthopedic products: Orthopedic internal fixation, bone plate, bone nails, bone pins, bone screws and products as such.
5. OEM products: Orthopedic internal fixation.

(4) New products (services) development

| | | | |
|---|---|---|---|
| 1 | Second generation reconstruction joint replacements for oncology and tools | 2 | Modular acetabular revision system and tools |
| 3 | Short stems and tools | 4 | Dual mobility hip system and tools |
| 5 | MBA baseplate and augment | 6 | U-Motion II EXPE Liner expansion |
| 7 | Conformity stems and tools | 8 | Modular knee joint specimen |
| 9 | Non-cement fixed femoral end implants | 10 | 3D printed acetabular systems and tools |
| 11 | Restricted rear stabilized tibial base pad | 12 | Embedded femoral condyle |
| 13 | Shoulder joint systems and tools | 14 | Modular stems and tools |

(II) Industry Overview:

1. Current Status and Future Development

According to "The Orthopaedic Industry Annual Report" published by ORTHOWORLD in 2018, the global artificial knee joint estimated output value for 2019 is US$9.38 billion, and the expected compound growth rate is 3.5-3.7% from 2019 to 2022. The artificial hip joint has an output value of US$7.56 billion and the expected compound growth rate is 2.4-2.5% from 2019 to 2022. In addition, the overall price fluctuations in the end product market are minimum. In the market with almost NT$500 billion and continues to grow due to the aging population, the future development of the Company can be expected.

2. Relationship with Up-, Middle- and Downstream Companies

The artificial joint industry has had a long history of development in the overseas market with comprehensive supply chains, especially in advanced countries in Europe and the United States. The Company used to rely on foreign companies for parts of key upstream and downstream manufacturing processes and the progress was often limited by external factors. Fortunately, the Company has invested funds in the Kaohsiung Plant in recent years and gradually established key manufacturing technologies for artificial joints in the plant. Currently, we have built a vertically integrated manufacturing process which encompasses the upper, middle, and downstream. In other words, except for the most upstream raw materials, all processes can be completed in a one-stop manner. Except for the most upstream raw materials, the Company has good control over costs and inventory supply chain.

3. Product Trends and Competition

In the field of artificial joints, standardized products continue to account for the majority of revenue. Nevertheless, with their advantages over resources, international corporations continue to control the product trends and enjoy leadership. The development in recent years leans towards improvements on customized joints, more precise operations and shorter recovery period, with the examples of 3D printing and robotic arm navigation. The Company has accumulated considerable R&D power through the investment in manpower, materials and resources over the years. As a result, we believe we can quickly respond to market challenges brought on by new technologies and concepts.

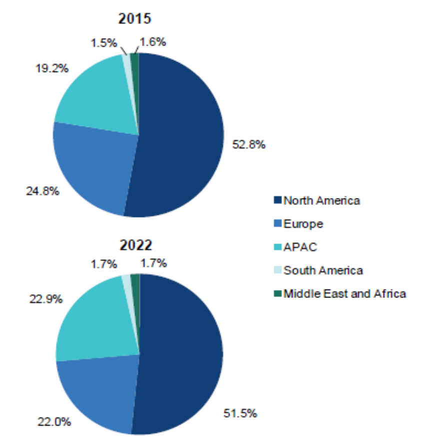
4. Competition

According to the statistics of Global Data, the largest market is still in North America. Therefore, the 4 largest plants are all based in the U.S, taking up about 80% of output value. The Company's product is positioned to compete with world-class plants both in quality and price. Even though the quality and functionality of our products are at the same level as other major plants, our marketing capability and brand awareness are inferior. Improving the visibility of the brand is something we need to invest in and catch up on.

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

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

**Global Hip and Knee Reconstruction Market Comparison, by Geography, 2015 and 2022**




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

(III) Research and Development

(1) Research and Development Expenses by the Central Research Institute (CRI) in the Past Two Years

Unit: NT$1,000

| Year | Total Expenses | to Revenue (%) |
|---|---|---|
| 2017 | 198,734 | 10.1% |
| 2018 | 200,454 | 8.6% |
| As of March 31, 2019 | 40,542 | 7.19% |

(2) Overview of Technology or Product Achievement

| | | | |
|---|---|---|---|
| 1 | The Machining Technology of CoCrMo Alloy for Orthopedic Joint Replacements | 2 | The Sintering Technology of Porous Coating on CoCrMo Alloy |
| 3 | The Mirror Polishing Technology of CoCrMo Alloy | 4 | Artificial Joint Machining Technology of Titanium Alloy |
| 5 | The Surface Treatment and hardening Technology of Stainless Surgical Instruments | 6 | The Diamond Shape Manufacturing Technology for Stem Broach Surface |
| 7 | The Robotic Grinding Technology for Femoral Components | 8 | The Ceramic Liner |
| 9 | The Hip Replacement System for Revision | 10 | The Revision Knee Replacement System |
| 11 | The Reconstruction Joint Replacements for Oncology | 12 | Spinal Implants |
| 13 | The Precision Forging Technology of Titanium Alloy for Orthopedic Joint Replacements | 14 | The Precision Forging Technology of CoCrMo Alloy for Orthopedic Joint Replacements |
| 15 | The Sintering Technology of Porous Coating on Titanium Alloy | 16 | The Precision Casting Technology of CoCrMo Alloy for Orthopedic Joint Replacements |

| | | | |
|---|---|---|---|
| 17 | Second generation large trochanteric stem | 18 | The Polished Cemented Stem |
| 19 | Second generation of all-polyethylene acetabular lining | 20 | The New Knee Surgical Instrument System |
| 21 | The Plasma Spray Coating Technology of Titanium and Hydroxyapatite on Titanium Alloy Surface | 22 | The Plasma Spray Coating Technology of Titanium on CoCrMo Alloy Surface |
| 23 | The Titanium Alloy Surface High-Thickness HA Plasma Spray Coating Technology | | |

(IV) Long-Term and Short-Term Development

(1) Short-term development:

1. Marketing strategy

(A) In the past two years, the Company has made adjustments in accordance with the local regulations of the two-invoice system. The Company will continue to set up branch offices in key areas or engage distributors as logistics platforms in order to efficiently expand the mainland market. In the meantime, the Company will actively apply for the registration of domestically-produced products under the continuous investment of resources from the joint venture parties. It is expected that all products will be licensed for sale in the first half of 2020. Moreover, the addition of A-Spine Asia's products to the existing distribution network will be beneficial for growth in China.

(B) Maintain presence in the Swiss and French markets through European subsidiaries and continues to explore business opportunities in other European markets.

(C) The subsidiary in Japan is expected to complete product registration and start sales in 2019. Besides hospital clients that the Company secured, the Company will also actively seek suitable partners to establish presence in the major markets of Asia.

(D) The Company cooperates with senior sales consultants in the South American to develop new local clients and the following legal procedures. The Company has developed important markets such as Argentina, Brazil and Columbia in the past two years, which contributes significantly to the business growth. The Company will continue to dedicate resources to this market development.

(E) The U.S. market is mainly focused on the expansion of the hospital channels. Faced with the brand advantages of major international manufacturers, the Company still fights on. What the Company lacks is brand awareness. Therefore, the Company seeks well-known doctors' research appointment opportunities in order to increase media exposure, increase brand awareness, and shape the brand identity.

(F) In terms of the domestic market, in addition to increasing the business team's understanding of the clients in order to ensure service quality and strength, the Company will integrate the existing sales channels with A-Spine Asia. This will gradually increase the overall synergy of product line and market integrations, so as to gradually increase the market share of the domestic market.

2. Production policy and product development

(A) Phase three of the new construction of Kaohsiung plant was put into production in the third quarter of 2017, which expanded our production capacity. We will gradually acquire more machines and increase inventory level depending on the sales requirement to meet market demand with flexibility.

(B) The Company will continue to expand the diversity of product groups to satisfy the needs of patients and doctors in different markets.

3. Operation scale and financial cooperation

(A) Target management has been implemented in the entire company to systematically increase the employees' sense of belonging and the confidence in the personal as well as the Company's development.

(B) Establish steady regulations and channels for finance, cash flow and financing for the future development of the Company.

(2) Long-term development:

1. Marketing strategy

The foremost focus of global layout strategy is regional balance. Sales shall not be concentrated on a single region or customer in order to minimize operational risks. The Group allocates resources pursuant to the same principle for a more stable development. The Company has sales locations in major strategic marketers all over the world, e.g. U.S., China, Europe and Japan. Due to the particular regionality nature of the pharmaceutical industry, it is difficult for the Company to develop the market on its own. Therefore, except for the 100%-owned subsidiary in the U.S., the Company relies on local managers and sales teams to expand local markets via joint ventures. The Company achieves sales target through profit and risk sharing with the managing parties in the joint venture arrangement. To quickly enter a new market, joint venture might be a necessity for the Company's long-term overseas development.

2. Production policy and product development

In-house production has always been a Company's goal. The completion of phase-three Kaohsiung plant not only gradually increases the production capacity, but also realizes the one-stop production planning to effectively control the delivery schedule and costs. The new plant can satisfy the production demand for the next five years. As for product development, since we pride ourselves on working towards being a leading international corporation, it is essential to offer diverse product lines and develop innovative products. Our R&D experience accumulated over the years helps the Company stand firm among global peers and head towards the "Me Better" direction to explore the world market.

3. Operation scale and financial cooperation

In response to the growing scale of the Company, we seek the more appropriate fund raising channels in line with various financing demands from long and short-term investment plans and working capital to satisfy the needs for daily operations. The strategies adopted lean conservative.

## II. Market and sales overview

(I) Market Analysis

(1) Sales (Service) Region

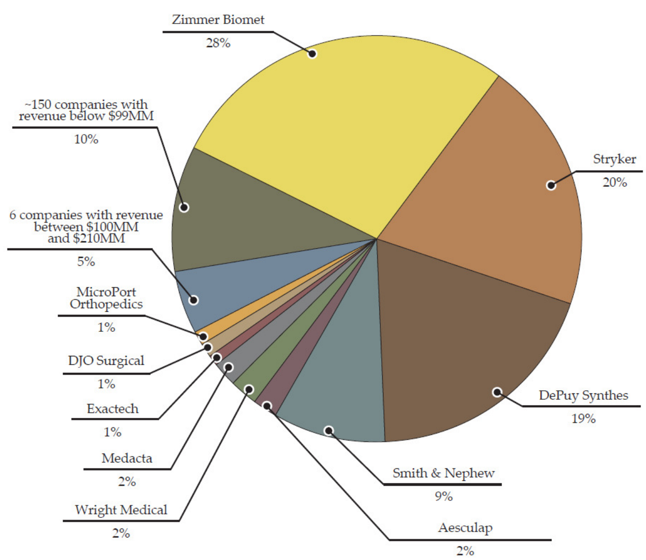
Unit: NT$1,000

| Area \ Year | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % |
| Taiwan | 429,418 | 31.0% | 734,392 | 37.2% | 868,831 | 37.3% |
| Asia | 446,570 | 32.3% | 522,357 | 26.5% | 650,072 | 27.9% |
| America | 393,435 | 28.4% | 424,144 | 21.5% | 400,580 | 17.2% |
| Europe | 100,705 | 7.3% | 250,504 | 12.7% | 371,629 | 15.9% |
| Africa | 13,212 | 1.0% | 11,214 | 0.6% | 9,213 | 0.4% |
| Australia | 0 | 0.0% | 29,981 | 1.5% | 31,922 | 1.3% |
| Total | 1,383,340 | 100.0% | 1,972,592 | 100.0% | 2,332,247 | 100.0% |

(2) Market share

According to "The Orthopaedic Industry Annual Report" published by the ORTHOWORLD in 2018, the total number of artificial joint prosthesis market share of the four largest manufacturers in the world was approximately 76%. The market share of the Company was approximately 0.4% to 0.5%.

Exhibit 20
Joint Reconstruction Market Share: Top Players and All Others



(3) Future market supply and demand and growth

A. Market demand

Degenerative arthritis is most commonly faced by the elderly population. The use of artificial joints is a necessary defense line when all of other conservative treatments have failed. Most elders are able to recover their normal lives after receiving artificial joint replacements. External factors such as the aging population, increased life expectancy, better financial ability and the pursuit of life quality are all momentum driving the continuous growth of the artificial joint market.

B. Market supply

The market is still controlled by a few major manufacturers. The four major manufacturers in the U.S. are responsible for nearly 80% of the industrial production value, while the rest is divided among other smaller manufacturers. However, the regulatory and technical threshold of the industry has been on the increase and would thus make it harder for new manufacturers to enter the market. Even though a couple of Chinese manufacturers have received domestic certifications, it is still challenging for them to participate in global competitions. Therefore, the market supply is relatively stable.

C. Market growth

The current output value of the global artificial joint industry is around 17 billion and the annual growth rate is around 3-4%. However, as the global population ages, the UN forecast shows that elders who are over 60 years old will account for 21% of the global population by 2050. The ratio of elders in the economically-developed area will increase from 20% to 33%. This aging trend will speed up the growth of the artificial joint market even more. Moreover, with the improvement of economic capability for the people in developing countries, more patients will be able to afford joint replacement surgeries. Therefore, this industry will continue to flourish in the next 20 to 30 years.

(4) Competitive Niches, Favorable and Unfavorable Factors in the Long Term and Countermeasures

A. Competitive Niches

1. The Company is the only plant that has integrated the up, mid, and down streams of artificial joint manufacturing around the globe. We stay updated with the core technologies to respond to market changes.
2. The long-term steady deployment in accordance with the regulations as well as 20 years of accumulated R&D power is able to stand toe to toe with global manufacturers. The Company's R&D and innovation is also heading towards the "Me Better" direction.
3. New product lines or complementary products will be added to the platform effect of marketing networks in order to strengthen market competitiveness.

B. Favorable factors

The one-stop production and sales are able to accelerate product launch, shorten the production cycle, effectively control the inventory level and reduce costs. More customers have gained confidence in the Company through marketing activities and product clinical efficacy, which has helped build brand awareness in the industry.

C. Unfavorable factors

The world's four major manufacturers still lead the overall market in terms of market deployment, channels, service, visibility and awareness. The scale of the Company's operations is still relatively small in comparison.

D. Unfavorable Factors and Countermeasures

With our inherent competition disadvantages, we need to execute our tasks to perfection, including product innovation, product quality, services as well as the establishment of sales channels. Through clinical cooperation and studies, we can strengthen our relationship with well-known doctors. By taking the initiatives in publishing clinical study theses in major periodicals at home and abroad, we can boost user confidence. Based on the market characteristics, we formulate flexible marketing and pricing strategies and financial plans to attract more powerful strategic partners and secure our place in the market in order to expand our scale.

(II) Major Products, Their Main Uses and Processes

(1) Main uses of major products:

| Major products | Main uses |
|---|---|
| Artificial hip joints | Joint replacement for patients suffering from rheumatic or degenerative hip problems |
| Artificial knee joints | Joint replacement for patients suffering from rheumatic or degenerative knee problems |
| Spinal products | To fix the spine for patients suffering from degenerative discs or spondylolisthesis |
| B. Trauma products | Repair and fix bone tissues for patients suffering from all kinds of bone trauma |
| OEM products | Orthopedic internal fixator and laparoscopic disposable surgical blade |

(2) Production process:

A. Artificial joints

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

Plastic material PE/XPE/E-XPE → Machining/Marking → Deflashing → Final rinsing → Examining → Packaging → Sterilizing

B. Spinal products

Titanium alloy → Machining → Sand blasting → Rinsing → Anodizing → Final rinsing → Examining → Packaging

C. Trauma products

316LStainless steel → Machining → Polishing → Rinsing → Packaging → Examining → Sterilizing

(III) Supply Status of Main Materials

Domestic Procurement:

(1) Titanium Alloy Bars: Mainly provided by President Co., Ltd., Titanium Industries Asia, Inc., Xitron Innovation Co., Ltd. and Acnis International & Carpenter Technology.

Foreign Procurement:

(1) Stainless steel bars: Mainly imported from the United States.

(2) Titanium alloy bars: Mainly imported from the United States, Italy and Russia.

(3) Cobalt chrome molybdenum bar: Mainly imported from the United States.

(4) Plastic bar: Mainly imported from the United States and Europe.

(5) Ti bead: Mainly imported from the United States.

(6) Ti / HA powder: Mainly imported from Europe.

(7) F75 Ingot: Mainly imported from the United States.

| Main raw materials | Suppliers | Supply |
|---|---|---|
| Stainless steel bar | Carpenter | Good |
| Titanium alloy bar | Carpenter, Perryman, President Co., Ltd., Acnis International, Titanium Industries Asia, Inc. and Xitron Innovation Co., Ltd. | Good |
| Cobalt chrome molybdenum bar | Carpenter, Edge | Good |
| Plastic bar | Quadrant, Orthoplastics, Invibio, Spartech | Good |
| Ti bead | Phelly Materials, Inc. | Good |
| Ti / HA Powder | Ceram Gmbh, MEDICOAT | Good |
| F75 Ingot | Cannon-Muskegon | Good |

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

(1) Major Suppliers in the Last Two Calendar Years

Unit: NT$1,000

| | 2017 | | | | 2018 | | | | As of March 31, 2019 (Note 2) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Item | Name | Amount | Proportion to total procurement value for the entire year (%) | Relation with issuer | Name | Amount | Proportion to total procurement value for the entire year (%) | Relation with issuer | Name | Amount | Percentage of net purchase as of the previous quarter of the current year (%) | Relation with issuer |
| 1 | UMC | 84,105 | 16.26 | Affiliated company | CeramTec AG | 106,989 | 18.60 | None | CeramTec AG | 24,095 | 25.17 | None |
| 2 | CeramTec AG | 83,912 | 16.22 | None | UMC | 70,797 | 12.31 | Affiliated company | Orthoplastics Limited | 7,185 | 7.50 | None |
| 3 | Hamagawa Industrial | 42,368 | 8.19 | None | CM | 40,426 | 7.03 | None | PAO NAN | 5,346 | 5.58 | Affiliated company |
| | Others | 306,889 | 59.33 | | Others | 357,039 | 62.06 | | Others | 59,122 | 61.75 | |
| | Net Total Supplies | 517,274 | 100.00 | | Net Total Supplies | 575,251 | 100.00 | | Net Total Supplies | 95,748 | 100.00 | |

Note 1: A list of any suppliers accounting for 10 percent or more of the company's total procurement amount in either of the 2 most recent fiscal years, the amounts bought from each and the percentage of total procurement accounted for by each. Where the company is prohibited by contract from revealing the name of a client, or where a trading counterpart is an individual person who is not a related party, it may use a code in place of the actual name.

Note 2: As of the date of publication of the annual report, companies that have been listed or whose stocks have been traded in the securities firm's business premises should be disclosed if they have the latest financial information reviewed or audited by the CPA.

Reasons for changes in procurement: The increase in the Company's 2018 procurement was due to the growth of the Group's operations and the need for more materials overall. Therefore, generally speaking, the changes in the major suppliers in the most recent two years are reasonable.

(2) Major Clients in the Last Two Calendar Years:

Unit: NT$1,000

| | 2017 | | | | 2018 | | | | As of March 31st, 2019 (Note 2) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Item | Name | Amount | Percentage of total sales value for the entire year (%) | Relation with issuer | Name | Amount | Percentage of total sales value for the entire year (%) | Relation with issuer | Name | Amount | Percentage of net purchase as of the previous quarter of the current year (%) | Relation with issuer |
| 1 | UMI | 339,520 | 17.21 | Affiliated company | UMI | 416,002 | 17.84 | Affiliated company | UMI | 66,201 | 11.74 | Affiliated company |
| 2 | Linkou Chang Gung Memorial Hospital | 112,536 | 5.70 | None | Linkou Chang Gung Memorial Hospital | 110,546 | 4.74 | None | Linkou Chang Gung Memorial Hospital | 20,993 | 3.73 | None |
| 3 | Implantes Fico Alemana S.A | 92,820 | 4.71 | None | Cirugía Alemana Insumos Médicos S.A. | 51,233 | 2.20 | None | Implantes Fico Alemana S.A | 16,875 | 2.99 | None |
| | Others | 1,427,716 | 72.38 | | Others | 1,754,466 | 75.22 | | Others | 459,777 | 81.54 | |
| | Net Sales | 1,972,592 | 100.00 | | Net Sales | 2,332,247 | 100.00 | | Net Sales | 563,846 | 100.00 | |

Note 1: A list of any clients accounting for 10 percent or more of the company's total sales amount in either of the 2 most recent fiscal years, the amounts sold to each and the percentage of total sales accounted for by each. Where the company is prohibited by contract from revealing the name of a client, or where a trading counterpart is an individual person who is not a related party, it may use a code in place of the actual name

Note 2: As of the date of publication of the annual report, companies that have been listed or whose stocks have been traded in the securities firm's business premises should be disclosed if they have the latest financial information reviewed or audited by the CPA.

Reasons for changes in sales: The Company's revenue from all business units in 2018 was increased, resulting in the Group's overall revenue growth. Therefore, generally speaking, the changes in the major clients in the most recent two years are reasonable.

## (V) Production in the Last Two Years

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

| Year / Production value / Major products | 2017 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Production capacity | Production quantity | Production value | Production capacity | Production quantity | Production value |
| Artificial joints | 300,000 pcs | 248,105 pieces | 544,987 | 348,000 pieces | 320,760 pieces | 696,628 |
| OEM products | 2,154 pieces | 2,154 pieces | 4,963 | 75,618 pieces | 62,289 pieces | 22,743 |
| Spinal products | 225,000 pieces | 186,887 pieces | 73,276 | 492,000 pieces | 407,867 pieces | 93,843 |
| Total | 527,154 pieces | 437,146 pieces | 623,226 | 915,618 pieces | 790,916 pieces | 813,214 |

## (VI) Shipments and Sales in the Last Two Years

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

| Year / Sales Volume & Value / Major products | 2017 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Local | | Export | | Local | | Export | |
| | Quantity | Value | Quantity | Value | Quantity | Value | Quantity | Value |
| Artificial joints | 102,266 pieces | 502,283 | 294,873 pieces | 1,110,298 | 55,575 pieces | 563,084 | 215,146 pieces | 1,277,318 |
| Spinal products | 0 | 144,096 | 0 | 167,603 | 81,288 pieces | 276,583 | 83,931 pieces | 134,269 |
| OEM products | 0 | 0 | 2,095 pieces | 5,529 | 838 pieces | 2,084 | 45,001 pieces | 30,036 |
| Other Products | 0 | 28,698 | 0 | 14,085 | 0 | 27,081 | 0 | 21,792 |
| Total | 102,266 pieces | 675,077 | 296,960 pieces | 1,297,515 | 137,701 pieces | 868,832 | 344,078 pieces | 1,463,415 |

## III. Information of employees for the two most recent years and up to the publication date of the Annual Report

March 31, 2019

| | Year | 2017 | 2018 | As of March 31, 2019 |
|---|---|---|---|---|
| Number of employees | Sales personnel | 74 | 84 | 88 |
| | Technical personnel | 342 | 368 | 359 |
| | Administrative personnel | 117 | 113 | 113 |
| | R&D personnel | 164 | 175 | 176 |
| | Total | 697 | 740 | 736 |
| Average age | | 36.8 | 37.2 | 37.6 |
| Average Years of Service | | 4.7 | 5.0 | 5.2 |
| Education distribution | Ph.D. | 2% | 2% | 2% |
| | Masters | 15% | 15% | 15% |
| | Bachelor's Degree | 57% | 58% | 58% |
| | Senior High School | 23% | 22% | 22% |
| | Below Senior High School | 3% | 3% | 3% |

## IV. Environmental protection expenditure

Disbursements for environmental protection: total losses (including damage awards) and fines for environmental pollution for the 2 most recent fiscal years, and during the current fiscal year up to the date of publication of the annual report, and an explanation of the measures (including corrective measures) and possible disbursements to be made in the future (including an estimate of losses, fines, and compensation resulting from any failure to adopt responsive measures, or if it is not possible to provide such an estimate, an explanation of the reason why it is not possible):

The Company has not receive any penalties and fines due to pollutions for the most recent year and as of the publish date of the annual report.

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

## V. Labor relations

(I) Various employee benefits, continuing education, training, retirement systems and the implementation status as well as various labor-management agreements and measures for maintaining employee rights and interests

1. Implementation of welfare measures:

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

   (2) When the company has a surplus at the end of the year, performance bonuses and employee bonuses will be provided for employees with outstanding performance.

   (3) Employee welfare funds are allocated in accordance with regulations to Employee Welfare Committee, which organizes various employee welfare activities. For example, cash presents for Labor Day, Dragon Boat Festival, Mid-Autumn Festival, and birthday, birthday party, gatherings, club activities, staff trips, subsidies for weddings, funerals and so on.

   (4) Increase employee cohesion by hosting family day activities, and inviting the employees' families to participate.

   (5) Give senior staff seniority awards as a token of appreciation for their long-term support and contribution.

   (6) Provide free health examinations every two years.

2. Education, training and development

   (1) Employees are the most important asset of the Company. The Company provides appropriate and necessary training, so that the employees can use their strengths and excel at their jobs to achieve the objectives that was assigned, which in turn improves the Company's core competitive advantage. The Company's training costs amounted to NT$2.55 million in 2018.

(2) Training system:

Our training types are currently categorized as follows:

①Professional skills training: When new employees and existing employees are appointed in new positions, professional skills raining shall be given so that the employees are equipped with the capacity to meet the requirements.

②New recruit onboard training: The new employees are assisted in familiarizing themselves with administrative tasks and their professional fields during the probation period.

③Functional training: Provide training for personnel whose functions would affect the requirement of the product, so that they are equipped with the necessary capability.

④Management Training: Courses that improve the management skills are provided to management personnel.

(3) Implementation of educational training:

The Company has always been committed to strengthening the job skills of the personnel and management skills of the management personnel to improve human resources quality. The Company regularly sets up and executes annual training plans to meet the requirement of work objectives, functionality, management, onboarding, self-development and regulations. The implementation statistics for educational training is as follows:

| Hours of internal training | Hours of internal training/person | Hours of external training | Hours of external training/person | Total hours/person |
|---|---|---|---|---|
| 3,137 hours | 4.9 hours | 3,312 hours | 5.2 hours | 10.1 hours |

3. Retirement system implementation:

The Company formulated the retirement policy in accordance with the "Labor Standards Act" and "Labor Pension Act". The Company allocates pension to Department of Trusts, Bank of Taiwan or the employees' personal retirement fund accounts.

4. Code of Conduct:

The Company has always valued the transparency and reasonableness of the management system. The system is used as the medium for labor-management negotiations and communications. The Company also formulated "Work Guidelines" based on the Labor Standards Ac and relevant regulations.

5. Employee communication channels:

(1) The Company established the system of labor-management meetings in accordance with the regulations. The meetings are held quarterly and are conducted in an open and two-way manner.

(2) The Company has set up employee feedback boxes in each plant for the employees to report any issues at work.

(3) A fully functional internal website (Portal): all important internal information is available through the Portal.

6. Working environment and protection for employees' personal safety

(1) The Company prioritized safety design when constructing new plants.

(2) The Company organizes regular employee health examination in accordance with the "Labor Health Protection Act," as well as educational training in accordance with "Occupational Safety and Health Education and Training Rules".

(3) Other than complying with the Occupational Safety and Health Act, the Company has set up occupational hazard prevention plan, hired full-time health management personnel, conducted regular environment inspections, and implemented automatic inspection guidelines to effectively prevent the occurrence of occupational diseases and occupational hazards. The Company has equally produced and posted labor safety and health slogans on its premises so that the employees can learn about safety knowledge and establish good environmental safety and health concepts.

(II) Losses arising as a result of labor disputes in the recent year and up to the printing date of this annual report, as well as disclosure of potential current and future losses and countermeasures:

There has been no significant labor disputes in the most recent year up to the printing date of this annual report.

## VI. Important contracts

As of the printing date of the annual report, the counterparty, content, restrictive clauses and valid period of supply and marketing contracts, technical cooperation contracts, construction contracts, long-term loan contracts and other important contracts that could have an impact on shareholder rights: None.

# Chapter 6 Financial Conditions

## I. Condensed balance sheet and statement of comprehensive income for the most recent five years

### (I) Condensed Balance Sheet - IFRS

Unit: NT$1,000

| Item / Year | | Financial data from the last five years | | | | | 2019 as of March 31 (Note 2) |
|---|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Current assets | | 1,094,666 | 1,862,972 | 1,503,925 | 1,991,021 | 2,381,014 | 2,221,732 |
| Property, plant and equipment | | 764,357 | 661,865 | 927,242 | 1,360,136 | 1,491,953 | 1,507,404 |
| Intangible assets | | 20,949 | 15,135 | 38,329 | 434,988 | 471,893 | 482,754 |
| Other assets | | 59,335 | 53,262 | 486,269 | 509,266 | 504,972 | 852,906 |
| Total assets | | 1,939,307 | 2,593,234 | 2,955,765 | 4,295,411 | 4,849,832 | 5,064,796 |
| Current liabilities | Before distribution | 693,494 | 639,828 | 843,254 | 1,319,631 | 1,600,383 | 1,742,727 |
| | After distribution | 761,573 | 754,631 | 942,808 | 1,420,034 | (Note 1) | (Note 1) |
| Non-current liabilities | | 234,955 | 180,357 | 310,965 | 757,656 | 999,091 | 1,049,656 |
| Total liabilities | Before distribution | 928,449 | 820,185 | 1,154,219 | 2,077,287 | 2,599,474 | 2,792,393 |
| | After distribution | 996,528 | 934,988 | 1,253,773 | 2,177,690 | (Note 1) | (Note 1) |
| Equity attributable to owners of parent company | | 1,010,858 | 1,773,049 | 1,801,546 | 2,218,124 | 2,327,300 | 2,339,486 |
| Share capital | | 559,761 | 717,469 | 717,469 | 797,129 | 804,509 | 804,509 |
| Capital reserve | | 346,230 | 912,988 | 915,406 | 1,243,611 | 1,280,536 | 1,280,536 |
| Retained Earnings | Before distribution | 95,943 | 156,049 | 187,080 | 216,990 | 242,255 | 254,441 |
| | After distribution | 27,864 | 41,246 | 87,526 | 116,587 | (Note 1) | (Note 1) |
| Other equity | | 8,924 | -13,457 | -46,793 | -52,815 | -95,482 | -81,949 |
| Treasury stock | | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-controlling equity | | 0 | 0 | 28,384 | 13,209 | 18,540 | 14,876 |
| Equity Total | Before distribution | 1,010,858 | 1,773,049 | 1,801,546 | 2,218,124 | 2,250,358 | 2,272,413 |
| | After distribution | 942,779 | 1,658,246 | 1,701,992 | 2,117,721 | (Note 1) | (Note 1) |

* Companies having compiled an individual financial report shall compile individual condensed balance sheet and statement of comprehensive income.
* Companies having adopted IFRS for financial reporting for less than five years shall compile additional financial data based on the nation's financial and accounting guidelines. For details, refer to data of table (2) below.

Note 1: The shareholders' meeting has not been held, hence the distribution value is not included.

Note 2: Financial information as of 2019 above has been reviewed and verified by accountants in accordance with IFRS.

## Condensed Statement of Comprehensive Income - IFRS

Unit: NT$1,000

| Year / Item | Financial data from the last five years | | | | | 2019 as of March 31 (Note 1) |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Operating revenue | 1,100,788 | 1,392,573 | 1,383,340 | 1,972,592 | 2,332,247 | 563,846 |
| Gross profit | 763,264 | 985,844 | 979,468 | 1,422,431 | 1,601,486 | 404,360 |
| Operating income | 101,480 | 179,228 | 159,686 | 161,936 | 84,800 | 14,610 |
| Non-operating income and expenses | 7,366 | -13,458 | -974 | 3,726 | 22,649 | -2,895 |
| Net income before tax | 108,846 | 165,770 | 158,712 | 165,662 | 107,449 | 11,715 |
| Continuing operations net income | 81,729 | 133,807 | 140,849 | 110,939 | 102,492 | 8,855 |
| Loss from suspended operations | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit (loss) in this period | 81,729 | 133,807 | 140,849 | 110,939 | 102,492 | 8,855 |
| Comprehensive income or loss (net value after tax) in this period | 1,467 | -3,149 | -49,034 | -17,224 | -13,412 | 9,788 |
| Total amount of comprehensive profit/loss in the year | 83,196 | 130,658 | 91,815 | 93,715 | 89,080 | 18,643 |
| Profit attributable to: Owners of parent company | 81,729 | 133,807 | 146,601 | 130,264 | 127,554 | 15,603 |
| Net income attributable to non-controlling interests | 0 | 0 | -5,752 | -19,325 | -25,062 | -6,208 |
| Comprehensive income (loss) attributable to owners of parent company | 83,196 | 130,658 | 102,816 | 113,429 | 113,818 | 25,184 |
| Comprehensive income (loss) attributable to non-controlling interests | 0 | 0 | -11,001 | -19,714 | -24,738 | -6,541 |
| Earnings per share | 1.52 | 2.30 | 2.06 | 1.75 | 1.61 | 0.19 |

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

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

Note 1: Financial information as of 2019 above has been reviewed and verified by accountants based on IFRS.

## (II) Condensed Balance Sheet - IFRS Individual Financial Report

Unit: NT$1,000

| Item \ Year | | Financial data from the last five years | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 |
| Current assets | | 1,045,489 | 1,624,188 | 1,277,147 | 1,520,576 | 1,873,328 |
| Property, plant and equipment | | 555,703 | 611,699 | 815,043 | 1,008,602 | 1,027,850 |
| Intangible assets | | 20,888 | 15,134 | 32,613 | 37,583 | 76,478 |
| Other assets | | 92,353 | 108,559 | 684,615 | 1,239,084 | 1,290,864 |
| Total assets | | 1,714,433 | 2,359,580 | 2,809,418 | 3,805,845 | 4,268,520 |
| Current liabilities | Before distribution | 488,535 | 406,175 | 726,447 | 949,086 | 1,143,067 |
| | After distribution | 556,614 | 520,978 | 826,001 | 1,049,489 | (Note 1) |
| Non-current liabilities | | 215,040 | 180,356 | 309,809 | 651,844 | 893,635 |
| Total liabilities | Before distribution | 703,575 | 586,531 | 1,036,256 | 1,600,930 | 2,036,702 |
| | After distribution | 771,654 | 701,334 | 1,135,810 | 1,701,333 | (Note 1) |
| Equity attributable to owners of parent company | | 1,010,858 | 1,773,049 | 1,773,162 | 2,204,915 | 2,327,300 |
| Share capital | | 559,761 | 717,469 | 717,469 | 797,129 | 804,509 |
| Capital reserve | | 346,230 | 912,988 | 915,406 | 1,243,611 | 1,280,536 |
| Reserved Earnings | Before distribution | 95,943 | 156,049 | 187,080 | 216,990 | 242,255 |
| | After distribution | 27,864 | 41,249 | 87,526 | 116,587 | (Note 1) |
| Other equity | | 8,924 | -13,457 | -46,793 | -52,815 | -95,482 |
| Treasury stock | | 0 | 0 | 0 | 0 | 0 |
| Non-controlling equity | | 0 | 0 | 0 | 0 | 0 |
| Equity Total | Before distribution | 1,010,858 | 1,773,049 | 1,773,162 | 2,204,915 | 2,231,818 |
| | After distribution | 942,779 | 1,658,246 | 1,673,608 | 2,104,512 | (Note 1) |

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

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

Note 1: The shareholders' meeting has not been held, hence the distribution value is not included.

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

Condensed Statement of Comprehensive Income - IFRS Individual Financial Report

Unit: NT$1,000

| Year / Item | Financial data from the last five years | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Operating revenue | 961,450 | 1,129,436 | 1,352,145 | 1,581,054 | 1,789,376 |
| Gross profit | 506,521 | 633,072 | 761,299 | 840,992 | 914,694 |
| Operating income | 99,912 | 149,255 | 176,661 | 190,185 | 216,377 |
| Non-operating income and expenses | 10,417 | 15,766 | -13,243 | -16,316 | -95,785 |
| Net income before tax | 110,329 | 165,021 | 163,418 | 173,869 | 120,592 |
| Continuing operations net income | 81,729 | 133,807 | 146,601 | 130,264 | 127,554 |
| Loss from suspended operations | 0 | 0 | 0 | 0 | 0 |
| Net profit (loss) in this period | 81,729 | 133,807 | 146,601 | 130,264 | 127,554 |
| Comprehensive income or loss (net value after tax) in this period | 1,467 | -3,149 | -43,785 | -16,835 | -13,736 |
| Total amount of comprehensive profit/loss in the year | 83,196 | 130,658 | 102,816 | 113,429 | 113,818 |
| Earnings per share | 1.52 | 2.30 | 2.06 | 1.78 | 1.61 |

＊ Companies having produced an individual financial report shall produce individual condensed balance sheet and statement of comprehensive income for the most recent five years.

＊ Companies having adopted IFRS for financial reporting for less than five years shall compile additional financial data based on the financial and accounting guidelines enforced in R.O.C. For details, refer to data of table (2) below.

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

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

Unit: NT$1,000

| Year / Item | | Financial information for the most recent five years (Note 1) | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 |
| Current assets | | N/A | N/A | N/A | N/A | N/A |
| Funds and long-term investment | | | | | | |
| Fixed assets | | | | | | |
| Intangible assets | | | | | | |
| Other assets | | | | | | |
| Total assets | | | | | | |
| Current liabilities | Before distribution | | | | | |
| | After distribution | | | | | |
| Long-term liabilities | | | | | | |
| Other liabilities | | | | | | |
| Total liabilities | Before distribution | | | | | |
| | After distribution | | | | | |
| Share capital | | | | | | |
| Capital reserve | | | | | | |
| Retained earnings | Before distribution | | | | | |
| | After distribution | | | | | |
| Unrealized gains or losses of financial products | | | | | | |
| Accumulated translation adjustments | | | | | | |
| Net loss of costs not recognized as pension | | | | | | |
| Shareholders' equity Total | Before distribution | | | | | |
| | After distribution | | | | | |

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

Condensed Statement of Income - Consolidated Financial Report Based on ROC GAAP

Unit: NT$1,000

| Item \ Year | Financial information for the most recent five years (Note 1) | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Operating revenue | N/A | N/A | N/A | N/A | N/A |
| Gross profit | | | | | |
| Operating income | | | | | |
| Non-operating income and gains | | | | | |
| Non-operating expenses and losses | | | | | |
| Income from continuing operations before tax | | | | | |
| Income from continuing operations after tax | | | | | |
| Income (loss) from discontinued operations | | | | | |
| Extraordinary gain (loss) | | | | | |
| Cumulative effect of changes in accounting principle | | | | | |
| Profit or loss for the current period | | | | | |
| Earnings per share | | | | | |

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

(IV) Condensed Balance Sheet - ROC GAAP

Unit: NT$1,000

<table>
<tr><td colspan="2" rowspan="2">Year<br>Item</td><td colspan="5">Financial information for the most recent five years (Note 1)</td></tr>
<tr><td>2014</td><td>2015</td><td>2016</td><td>2017</td><td>2018</td></tr>
<tr><td colspan="2">Current assets</td><td rowspan="21">N/A</td><td rowspan="21">N/A</td><td rowspan="21">N/A</td><td rowspan="21">N/A</td><td rowspan="21">N/A</td></tr>
<tr><td colspan="2">Funds and long-term investment</td></tr>
<tr><td colspan="2">Fixed assets</td></tr>
<tr><td colspan="2">Intangible assets</td></tr>
<tr><td colspan="2">Other assets</td></tr>
<tr><td colspan="2">Total assets</td></tr>
<tr><td rowspan="2">Current liabilities</td><td>Before distribution</td></tr>
<tr><td>After distribution</td></tr>
<tr><td colspan="2">Long-term liabilities</td></tr>
<tr><td colspan="2">Other liabilities</td></tr>
<tr><td rowspan="2">Total liabilities</td><td>Before distribution</td></tr>
<tr><td>After distribution</td></tr>
<tr><td colspan="2">Capital</td></tr>
<tr><td colspan="2">Capital reserve</td></tr>
<tr><td rowspan="2">Retained earnings</td><td>Before distribution</td></tr>
<tr><td>After distribution</td></tr>
<tr><td colspan="2">Unrealized gains or losses of financial products</td></tr>
<tr><td colspan="2">Accumulated translation adjustments</td></tr>
<tr><td colspan="2">Net loss of costs not recognized as pension</td></tr>
<tr><td rowspan="2">Shareholders' equity Total</td><td>Before distribution</td></tr>
<tr><td>After distribution</td></tr>
</table>

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

Condensed Statement of Income - ROC GAAP

Unit: NT$1,000

| Year / Item | Financial information for the most recent five years (Note 1) | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Operating revenue | N/A | N/A | N/A | N/A | N/A |
| Gross profit | | | | | |
| Operating income | | | | | |
| Non-operating income and gains | | | | | |
| Non-operating expenses and losses | | | | | |
| Income from continuing operations before tax | | | | | |
| Income from continuing operations after tax | | | | | |
| Income (loss) from discontinued operations | | | | | |
| Extraordinary gain (loss) | | | | | |
| Cumulative effect of changes in accounting principle | | | | | |
| Profit or loss for the current period | | | | | |
| Earnings per share | | | | | |

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

## (V) Name of the CPA for the 5 Most Recent Years and Audit Opinions

| Audit year | Accounting firm | Name of the accountants | Audit opinion |
|---|---|---|---|
| 2014 | Ernst & Young | Chang, Chih-Ming; Yang, Chih-Hui | Unqualified opinion |
| 2015 | Ernst & Young | Chang, Chih-Ming; Huang, Chien-Che | Unqualified opinion |
| 2016 | Ernst & Young | Chang, Chih-Ming; Huang, Chien-Che | Unqualified opinion |
| 2017 | Ernst & Young | Chang, Chih-Ming; Huang, Chien-Che | Unqualified opinion |
| 2018 | Ernst & Young | Chang, Chih-Ming; Huang, Chien-Che | Unqualified opinion |

# II. Financial ratios analysis for the most recent 5 years

## (I) Financial Analysis - IFRS

| Items | Year (Note 1) | Financial analysis for the most 5 recent fiscal years | | | | | 2019 as of March 31 (Note 2) |
|---|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Financial structure (%) | Liability to assets ratio | 47.87 | 31.62 | 39.05 | 48.36 | 53.59 | 55.13 |
| | Long-term capital to property, plant, and equipment ratio | 162.98 | 295.38 | 227.82 | 218.78 | 217.79 | 220.38 |
| Solvency (%) | Current ratio | 157.84 | 291.91 | 178.34 | 150.87 | 148.77 | 127.48 |
| | Liquidity ratio | 75.8 | 210.46 | 107.45 | 79.75 | 77.09 | 60.23 |
| | Interest coverage ratio | 10.28 | 16.39 | 29.46 | 13.51 | 5.00 | 3.65 |
| Operation performance | Receivables turnover rate (times) | 6.55 | 7.22 | 5.69 | 5.02 | 4.05 | 3.61 |
| | Average days of collection | 55 | 50 | 64 | 72 | 90 | 101 |
| | Inventory turnover rate (times) | 0.65 | 0.78 | 0.81 | 0.73 | 0.70 | 0.56 |
| | Accounts payable turnover rate (times) | 6.08 | 7.53 | 7.43 | 6.09 | 6.43 | 5.72 |
| | Average days of sale | 553 | 467 | 450 | 497 | 515 | 651 |
| | Property, plant and equipment turnover rate (times) | 1.52 | 1.95 | 1.74 | 1.72 | 1.63 | 1.50 |
| | Total assets turnover rate (times) | 0.59 | 0.61 | 0.49 | 0.54 | 0.51 | 0.45 |
| Profitability | Return on assets (%) | 4.97 | 6.29 | 5.24 | 3.36 | 2.72 | 1.25 |
| | Return on shareholders' equity (%) | 8.77 | 9.61 | 7.88 | 5.52 | 4.58 | 1.56 |
| | Ratio of profit before income tax to paid-in capital (%) | 10.76 | 9.34 | 8.81 | 7.46 | 4.77 | 2.06 |
| | Net income ratio (%) | 7.42 | 9.60 | 10.18 | 5.62 | 4.39 | 6.28 |
| | Earnings per share (NT$) | 1.52 | 2.30 | 2.06 | 1.78 | 1.61 | 0.19 |
| Cash flow | Cash flow ratio (%) | 13.39 | 39.60 | 21.66 | 1.63 | 1.14 | 9.47 |
| | Cash flow adequacy ratio (%) | 22.12 | 38.75 | 36.72 | 24.07 | 21.52 | 93.54 |
| | Cash re-investment ratio (%) | 4.26 | 8.59 | 2.90 | -2.71 | -2.52 | 5.24 |
| Leverage | Operating leverage | 5.99 | 4.57 | 4.45 | 6.12 | 12.84 | 17.85 |
| | Financial leverage | 1.13 | 1.06 | 1.03 | 1.08 | 1.46 | 2.24 |

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

(1) Interest coverage ratio: Mainly due to the increase in interest expenses in the current period.
(2) Average collection days: Mainly due to the growth in revenue from business units and the growth in revenue from Mainland China which resulted in an increase in accounts receivable.
(3) Net income before tax to paid-up capital ratio: Mainly due to an increase in business promotion expenses from business units which reduced net income before taxes.
(4) Net profit margin: Mainly due to an increase in business promotion expenses for current business units which decreased net profit after tax.
(5) Cash flow ratio: Due to the reduction of net cash flow of current business operation and the increase in short-term loan from the previous period that increased current liabilities.
(6) Operating leverage: Mainly due to an increase in revenue and the costs for changes in operations.
(7) Degree of financial leverage: Mainly due to the increase in business promotion expenses and short-term loans of current business units in this period which decreased operating profit and increased interest expenses.

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

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

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

Note 2: Financial information as of 2019 above has been reviewed and verified by accountants in accordance with IFRS.

## Individual Financial Analysis - IFRS

| Items | | Year (Note 1): Financial analysis for the most 5 recent fiscal years | | | | | 2019 as of March 31 (Note 2) |
|---|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Financial structure (%) | Liability to assets ratio | 41.03 | 24.85 | 36.88 | 42.06 | 47.71 | N/A |
| | Long-term capital to property, plant, and equipment ratio | 220.60 | 319.34 | 255.56 | 283.23 | 304.07 | |
| Solvency (%) | Current ratio | 214.00 | 399.87 | 175.80 | 160.21 | 163.88 | |
| | Liquidity ratio | 137.45 | 279.14 | 107.58 | 93.31 | 100.00 | |
| | Interest coverage ratio | 13.97 | 24.16 | 36.77 | 17.16 | 8.60 | |
| Operation performance | Receivables turnover rate (times) | 2.53 | 2.67 | 3.33 | 3.11 | 2.45 | |
| | Average days of collection | 144 | 136 | 109 | 117 | 148 | |
| | Inventory turnover rate (times) | 1.24 | 1.15 | 1.24 | 1.23 | 1.24 | |
| | Accounts payable turnover rate (times) | 6.82 | 6.07 | 7.07 | 8.76 | 10.67 | |
| | Average days of sale | 292 | 315 | 292 | 296 | 292 | |
| | Property, plant and equipment turnover rate (times) | 1.76 | 1.93 | 1.89 | 1.73 | 1.75 | |
| | Total assets turnover rate (times) | 0.59 | 0.55 | 0.52 | 0.47 | 0.44 | |
| Profitability | Return on assets (%) | 5.47 | 6.85 | 5.81 | 4.20 | 3.48 | |
| | Return on shareholders' equity (%) | 8.77 | 9.61 | 8.26 | 6.54 | 5.75 | |
| | Ratio of profit before income tax to paid-in capital (%) | 10.91 | 9.30 | 9.21 | 7.88 | 5.40 | |
| | Net income ratio (%) | 8.50 | 11.84 | 10.84 | 8.23 | 7.12 | |
| | Earnings per share (NT$) | 1.52 | 2.30 | 2.06 | 1.78 | 1.60 | |
| Cash flow | Cash flow ratio (%) | 11.98 | 68.69 | 21.89 | 11.96 | 1.14 | |
| | Cash flow adequacy ratio (%) | 32.74 | 52.93 | 48.61 | 44.03 | 36.85 | |
| | Cash re-investment ratio (%) | 2.39 | 9.96 | 1.95 | 0.45 | -2.60 | |
| Leverage | Operating leverage | 4.95 | 4.16 | 3.81 | 4.37 | 4.32 | |
| | Financial leverage | 1.09 | 1.05 | 1.02 | 1.05 | 1.07 | |

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

(1) Interest coverage ratio: Mainly due to the decrease of interest expenses in the period from the previous period and the decrease in income tax expenses from the previous period.
(2) Receivables turnover ratio: Mainly due to the increase in revenue of business units and revenue in Mainland China that increased accounts receivable.
(3) Average collection days: Mainly due to the increase in revenue of business units and revenue in Mainland China that increased accounts receivable.
(4) Payables turnover ratio: Mainly due to the increase in operating costs and decrease in payables.
(5) Net income before tax to paid-up capital ratio: Mainly due to the increase in losses from subsidiaries in the current period that decreased the net profit before tax.
(6) Cash flow ratio: Due to the reduction of net cash flow of business activities in the current period and the increase in short-term loans and investment losses from the previous period.
(7) Cash reinvestment ratio: Mainly due to the decrease in net cash inflow from business activities as compared to the previous period.

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

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

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

Note 2: Financial data as of 2019 above do not include individual financial data, as an individual financial report based on IFRS was not produced in accordance with regulations.

■ Calculation formula for financial analysis as follows:

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

Note 4: Special attention shall be paid to the following matters when using the calculation formula of earning per share above:

1. The calculation shall be based on the weighted average number of shares of common stock instead of the number of issued shares at the end of the year.
2. Where there is cash replenishment or treasury stock transaction, the circulation period shall be

considered when calculating the weight average number of shares.

3. In the case of capital increase by surplus or by capital reserve, the annual and semi-annual earnings per share of previous years shall be retrospectively adjusted in accordance with the proportion of capital increase without considering the issuance period of such capital increase.

4. If the preferred share cannot be converted into cumulative preferred shares, then the dividend of the year (whether it has been issued or not) shall be deducted from net income after tax (NIAT), or included as a net loss after tax. If a preferred stock is designated as non-cumulative, the dividend of the preferred stock shall be deducted from the net profit after tax if net profit after tax exists; no adjustment is required in case of loss.

Note 5: Special attention shall be paid to the following matters when measuring cash flow analysis:

1. Net cash flow from operating activities is the net cash inflow from operating activities in the cash flow statement.

2. Capital expenditure is the annual cash outflow of capital investment.

3. The increase in inventory is counted only when the balance at the end of the period is greater than the balance at the beginning of the period. If the inventory decreases at the end of the year, it is counted as zero.

4. Cash dividends include the cash dividends of common stocks and preferred stocks.

5. Gross value of PP&E shall refer to the total value of PP&E minus accumulated depreciation.

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

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

## (II) Financial Analysis - ROC GAAP

<table>
<tr><td colspan="3">Year</td><td colspan="5">Financial data from the last five years</td></tr>
<tr><td colspan="3">Items</td><td>2014</td><td>2015</td><td>2016</td><td>2017</td><td>2018</td></tr>
<tr><td rowspan="2">Financial structure (%)</td><td colspan="2">Liability to assets ratio</td><td rowspan="22">N/A</td><td rowspan="22">N/A</td><td rowspan="22">N/A</td><td rowspan="22">N/A</td><td rowspan="22">N/A</td></tr>
<tr><td colspan="2">Long-term fund to fixed assets ratio</td></tr>
<tr><td rowspan="3">Solvency (%)</td><td colspan="2">Current ratio</td></tr>
<tr><td colspan="2">Liquidity ratio</td></tr>
<tr><td colspan="2">Interest coverage ratio</td></tr>
<tr><td rowspan="7">Operation performance</td><td colspan="2">Receivables turnover rate (times)</td></tr>
<tr><td colspan="2">Average days of collection</td></tr>
<tr><td colspan="2">Inventory turnover rate (times)</td></tr>
<tr><td colspan="2">Payables turnover rate</td></tr>
<tr><td colspan="2">Average days of sale</td></tr>
<tr><td colspan="2">Fixed asset turnover (times)</td></tr>
<tr><td colspan="2">Total assets turnover rate (times)</td></tr>
<tr><td rowspan="6">Profitability</td><td colspan="2">Return on assets (%)</td></tr>
<tr><td colspan="2">Return on shareholders' equity (%)</td></tr>
<tr><td rowspan="2">Percentage of paid-up capital (%)</td><td>Operating profit</td></tr>
<tr><td>Pre-tax net profit</td></tr>
<tr><td colspan="2">Net income ratio (%)</td></tr>
<tr><td colspan="2">Earnings per share (NT$)</td></tr>
<tr><td rowspan="3">Cash Flow</td><td colspan="2">Cash flow ratio (%)</td></tr>
<tr><td colspan="2">Cash flow adequacy ratio (%)</td></tr>
<tr><td colspan="2">Cash re-investment ratio (%)</td></tr>
<tr><td rowspan="2">Leverage</td><td colspan="2">Operating leverage</td></tr>
<tr><td colspan="2">Financial leverage</td></tr>
<tr><td colspan="8">Description of causes for changes to various financial ratios in the two most recent years. (analysis would not be required if the change is within 20%): N/A</td></tr>
</table>

## Consolidated Financial Analysis - ROC GAAP

<table>
<tr><td colspan="3">Year</td><td colspan="5">Financial data from the last five years</td></tr>
<tr><td colspan="3">Items</td><td>2014</td><td>2015</td><td>2016</td><td>2017</td><td>2018</td></tr>
<tr><td rowspan="2">Financial structure (%)</td><td colspan="2">Liability to assets ratio</td><td rowspan="23">N/A</td><td rowspan="23">N/A</td><td rowspan="23">N/A</td><td rowspan="23">N/A</td><td rowspan="23">N/A</td></tr>
<tr><td colspan="2">Long-term fund to fixed assets ratio</td></tr>
<tr><td rowspan="3">Solvency (%)</td><td colspan="2">Current ratio</td></tr>
<tr><td colspan="2">Liquidity ratio</td></tr>
<tr><td colspan="2">Interest coverage ratio</td></tr>
<tr><td rowspan="7">Operation performance</td><td colspan="2">Receivables turnover rate (times)</td></tr>
<tr><td colspan="2">Average days of collection</td></tr>
<tr><td colspan="2">Inventory turnover rate (times)</td></tr>
<tr><td colspan="2">Payables turnover rate</td></tr>
<tr><td colspan="2">Average days of sale</td></tr>
<tr><td colspan="2">Fixed asset turnover (times)</td></tr>
<tr><td colspan="2">Total assets turnover rate (times)</td></tr>
<tr><td rowspan="6">Profitability</td><td colspan="2">Return on assets (%)</td></tr>
<tr><td colspan="2">Return on shareholders' equity (%)</td></tr>
<tr><td rowspan="2">Percentage of paid-up capital (%)</td><td>Operating profit</td></tr>
<tr><td>Pre-tax net profit</td></tr>
<tr><td colspan="2">Net income ratio (%)</td></tr>
<tr><td colspan="2">Earnings per share (NT$)</td></tr>
<tr><td rowspan="3">Cash flow</td><td colspan="2">Cash flow ratio (%)</td></tr>
<tr><td colspan="2">Cash flow adequacy ratio (%)</td></tr>
<tr><td colspan="2">Cash re-investment ratio (%)</td></tr>
<tr><td rowspan="2">Leverage</td><td colspan="2">Operating leverage</td></tr>
<tr><td colspan="2">Financial leverage</td></tr>
<tr><td colspan="8">Description of causes for changes to various financial ratios in the 2 most recent years. (analysis would not be required if the change is within 20%): N/A</td></tr>
</table>

■ Calculation formula for financial analysis as follows:

1. Financial structure

   (1) Debt-to-asset ratio = total liabilities / total assets.

   (2) Long-term fund to fixed assets ratio＝(net shareholders' equity + long-term debt) / net fixed assets.

2. Solvency

   (1) Current ratio = current assets / current liabilities.

   (2) Quick ratio = (current assets – inventory – prepaid expense) / current liabilities.

   (3) Interest coverage ratio = net income before income tax and interest expense / current interest expense.

3. Operation performance

   (1) Receivable (including accounts receivable and business-related notes receivable) turnover ratio = net operating revenue / average balance of receivable of the period (including accounts receivable and business-related notes receivable).

   (2) Average days of collection = 365 / receivables turnover ratio.

   (3) Inventory turnover ratio = cost of goods sold / average amount of inventory.

   (4) Payable (including accounts payable and business-related notes payable) turnover ratio = cost of goods sold / average balance of payable of the period (including accounts payable and business-related notes payable).

   (5) Average days of sales = 365 / inventory turnover ratio.

   (6) Fixed assets turnover ratio＝net sales / average net fixed assets.

   (7) Total asset turnover rate = net sales / average total assets.

4. Profitability

   (1) Return on assets ＝ [net income + interest expense (1– tax rate)] / average total assets.

   (2) Return on shareholder's equity＝ net income / net average shareholders' equity.

   (3) Net profit margin = net income / net sales.

   (4) Earnings per share ＝ (net income - dividend to preferred stock) / weighted average of shares issued. (Note 4)

5. Cash flows

   (1) Cash flow ratio = net cash flow from operating activities / current liabilities.

   (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (capital expenditures + inventory increase + cash dividend) for the most recent five years.

   (3) Cash reinvestment ratio = (net cash flows from operating activities – cash dividend) / (gross fixed assets + long-term investment + other assets + working capital). (Note 5)

6. Leverage:

   (1) Degree of operating leverage (DOL) = (Net operating revenue - operating change costs and expenses) / Operating profit (Note 6).

   (2) Financial leverage = operating income / (operating income - interest expenses).

Note 3: Special attention shall be paid to the following matters when using the calculation formula of earning per share above:

1. The calculation shall be based on the weighted average number of shares of common stock instead of the number of issued shares at the end of the year.

2. Where there is cash replenishment or treasury stock transaction, the circulation period shall be

considered when calculating the weight average number of shares.

3. In the case of capital increase by surplus or by capital reserve, the annual and semi-annual earnings per share of previous years shall be retrospectively adjusted in accordance with the proportion of capital increase without considering the issuance period of such capital increase.

4. If the preferred share cannot be converted into cumulative preferred shares, then the dividend of the year (whether it has been issued or not) shall be deducted from net income after tax (NIAT), or included as a net loss after tax. If a preferred stock is designated as non-cumulative, the dividend of the preferred stock shall be deducted from the net profit after tax if net profit after tax exists; no adjustment is required in case of loss.

Note 4: Special attention should be paid to the following matters when measuring cash flow analysis:

1. Net cash flow from operating activities is the net cash inflow from operating activities in the cash flow statement.

2. Capital expenditure is the annual cash outflow of capital investment.

3. The increase in inventory is counted only when the balance at the end of the period is greater than the balance at the beginning of the period. If the inventory decreases at the end of the year, it is counted as zero.

4. Cash dividends include the cash dividends of common stocks and preferred stocks.

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

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

**III. Audit Report from the Supervisors or Audit Committee in the past fiscal year**

<u>United Orthopedic Corporation</u>

Supervisors' Audit Report

The Board of Directors prepared the Company's 2018 Business Report, Financial Statements, Consolidated Financial Statements, and Earnings Distribution Plan, which were reviewed and considered to be correct and accurate by the Supervisors. Pursuant to Article 219 of the Company Act, we hereby submit this Report for your reference.

Submitted to

Annual Shareholders' Meeting 2019

United Orthopedic Corporation

Supervisor: Wang, Ching-Hsiang

Wong, Chi-Yin

Chen, Li-Ju

March 19, 2019

## IV. Latest annual financial report, including the Independent Auditors' Report, two years of balance sheets for comparison, statement of comprehensive income, statement of changes in equity, statement of cash flow, and annotations or annexed tables.

INDEPENDENT AUDITORS' REPORT

To United Orthopedic Corporation:

**Audit opinion**

We have audited the consolidated balance sheets of United Orthopedic Corporation and its subsidiaries as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, statement of changes in equity, statement of cash flow, and notes to consolidated financial statements (including summary of significant accounting policies) for the years then ended.

In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the consolidated financial status of United Orthopedic Corporation and its subsidiaries as of December 31, 2018 and 2017, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed by the Financial Supervisory Commission with effective dates.

**Basis for audit opinion**

We conducted our audits in accordance with the "Regulations Governing the Auditing and Attestation of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Responsibilities section of our report. We are independent of United Orthopedic Corporation and its subsidiaries in accordance with the Code of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other responsibilities under the Code. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our opinion.

**Key audit matters**

Key audit matters are ones that were of most significance in our audit of the consolidated financial statements of United Orthopedic Corporation and its subsidiaries for the year ended December 31, 2018 based on our professional judgment. These items have been covered during the audit of the overall consolidated financial statements and in forming the audit opinion. We will not express a separate opinion on these items.

Inventory valuation

The net inventories of United Orthopedic Corporation and its subsidiaries were NT$1,118,660 thousand as of December 31, 2018, which accounted for 23% of the consolidated total assets. It was considered significant to the consolidated financial statement. Hence, we determined inventory valuation to be a key audit item. Our audit procedures included, but not limited to, the following steps: to learn and test the effectiveness of internal control established by management for inventory valuation and obsolescence loss. We observed stocktaking on-site to ensure the conditions and safekeeping of their inventories. We evaluated the appropriateness of management's accounting policies on obsolescence and out-of-date inventories, including the identification of obsolescence and out-of-date inventories. We randomly selected inventory samples to audit their documents up to sales or purchase invoices and carried out verifications over inventory valuation. We also considered the appropriateness of inventory disclosures in Note 5 and Note 6 to the consolidated financial statements.

Revenue recognition

United Orthopedic Corporation and its subsidiaries' primary products are orthopedic implants - hip/knee replacement, trauma-treatment products and OEM products, which generated NT$2,332,247 thousand in revenue for the year ended December 31, 2018. The amount was considered significant to the consolidated financial statement. Hence, we determined revenue recognition to be a key audit item. Our audit procedures included, but not limited to, the following steps: to learn and evaluate the appropriateness of revenue recognition accounting policies. We learned and tested the effectiveness of internal control established by management for sales cycle. We ensured that revenue is recognized when control over the product was transferred, including the selection of important customers as samples to verify transaction terms and relevant documents. We conducted analytical procedures on product types, regions and monthly gross margins. We also conducted analytical procedures on significant sales returns and allowance to understand the reasons for those transactions. We run the sales cut-off tests before and after the balance sheet date. We also considered the appropriateness of sales revenue disclosures in Note 6 to the consolidated financial statements.

Impairment assessment on goodwill

Goodwill of United Orthopedic Corporation and its subsidiaries were NT$292,891 thousand as of December 31, 2018, which accounted for 6% of the consolidated total assets. It was considered significant to the consolidated financial statement. Goodwill mainly arose from the acquisition of A-Spine Asia Co., Ltd. by United Orthopedic Corporation and its subsidiaries for the purpose of expanding business into the domestic and foreign markets of artificial spine products. Management shall conduct impairment tests on goodwill obtained through business combination every year pursuant to relevant standards. The goodwill impairment test involves significant judgement of the management. The assumption of recoverable amount has a high degree of uncertainty. Therefore, we determined that the impairment assessment of goodwill was a key audit issue. Our audit procedures included, but not limited to, the following audit procedures: to understand the basis used by the management to identify the cash generating units and assess its suitability. We 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. We assessed the evaluation models and important assumptions (including discount rate etc.) adopted by the management, and compared and verified assumption data used by the management against market and historical data to ensure the appropriateness of management's judgment. We also considered the appropriateness of disclosures concerning goodwill and impairment tests on intangible assets with indefinite useful lives in Note 5 and Note 6 to the consolidated financial statements.

Recognition of expenditure on internally generated intangible assets

United Orthopedic Corporation and its subsidiaries' net carrying amount of internally generated intangible assets were NT$63,710 thousand as of December 31, 2018, which was considered significant to the consolidated financial statement. United Orthopedic Corporation and its subsidiaries invested a significant amount of development costs on orthopedics equipment, including hip/knee replacements and surgical instruments, due to their corporate structure; therefore, the expenditures on internal developments were capitalized. In order to meet the six capitalization requirements for development stage, United Orthopedic Corporation and its subsidiaries needed to provide technical feasibility assessments by project types to identify that a particular technology had reached technical feasibility. Moreover, the finance department shall conduct capitalization project assessments by development project. The management executed the aforementioned assessments on individual project based on internal and external information. As management's judgment and assumptions were involved, we determined this to be a key audit item. Our audit procedures included, but not limited to, evaluating and testing the effectiveness of the design and execution of internal control concerning the capitalization of development expenditure. The tasks included to review the reasonableness of written policies on the capitalization of internal intangible assets and select random samples for project management assessment, i.e. to ensure the allocation, capitalization and timing of amortization where project costs were concerned were consistent with the written policies on the capitalization of internal intangible assets. We also considered the appropriateness of intangible assets disclosures in Note 5 and Note 6 to the consolidated financial statements.

**Responsibilities of management and governance bodies for the consolidated financial statements**

The responsibilities of management are to prepare the consolidated financial statements with fair presentation in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and IFRSs, IASs, IFRICs, and SICs endorsed by the Financial Supervisory Commission with effective dates, and maintain necessary internal controls associated with the preparation in order to ensure the financial statements are free from material misstatement arising from fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability of United Orthopedic Corporation and its subsidiaries in continuing as a going concern, disclosing associated matters and adopting the going concern basis of accounting unless the management intends to liquidate the United Orthopedic Corporation and its subsidiaries or cease the operations, or has no realistic alternative but to do so.

The governance bodies of United Orthopedic Corporation and its subsidiaries (including the Audit Committee or Supervisors) are responsible for supervising the financial reporting process.

**Auditors' responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance on whether the consolidated financial statements as a whole are free from material misstatement arising from fraud or error, and to issue an independent auditors' report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. If those amounts of misstatements, either individually or in the aggregate, could reasonably be expected to influence the economic decisions of financial statements users, they are considered material.

We have exercised our professional judgment and maintained professional doubt when exercising auditing work according to the auditing standards generally accepted in the Republic of China. We also perform the following tasks:

1. Identify and assess the risks of material misstatement arising from fraud or error within the consolidated financial statements; design and execute counter-measures in response to those risks, and obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Therefore, the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error.
2. Understand internal controls relevant to the audit in order to design appropriate audit procedures under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of United Orthopedic Corporation and its subsidiaries' internal control.
3. Evaluate the appropriateness of accounting policies adopted and the reasonableness of accounting estimates and relevant disclosures made by management.
4. Based on the audit evidence obtained, we conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists for events or conditions that may cast significant doubts on United Orthopedic Corporation and its subsidiaries' ability to continue as a going concern. If we are of the opinion that a material uncertainty exists, we shall remind users of the consolidated financial statements to pay attention to relevant disclosures in the notes to those statements within our audit report. If such disclosures are inadequate, we need to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may result in United Orthopedic Corporation and its subsidiaries ceasing to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements (including relevant notes), and whether the consolidated financial statements adequately represent the underlying transactions and events.
6. Obtain sufficient and appropriate audit evidence concerning the financial information of entities within United Orthopedic Corporation and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit and the preparation of an audit opinion on the Group.

Matters communicated between us and the governance bodies include the planned scope and timing of the audit, and significant audit findings (including any significant deficiencies in internal control identified during the audit).

We also provide governance bodies with a declaration that we have complied with the Code of Professional Ethics for Certified Public Accountant of the Republic of China regarding independence, and to communicate with them all relationships and other matters that may possibly be deemed to impair our independence (including relevant preventive measures).

From the matters communicated with governance bodies, we determine the key audit matters within the audit of United Orthopedic Corporation and its subsidiaries' consolidated financial statements for the year ended December 31, 2018. We have clearly indicated such matters in the independent auditors' report. Unless legal regulations prohibit the public disclosure of specific items, or in extremely rare cases, where we decided not to communicate over specific items in the independent auditors' report for it could be reasonably anticipated that the negative effects of such disclosure would be greater than the public interest it brings forth.

**Others**

United Orthopedic Corporation has also prepared individual financial statements for the years ended December 31, 2018 and 2017, which we had audited and issued an unqualified opinion.

Ernst & Young

Approval Number from Competent Authority for the Auditing and Attestation of Public Companies' Financial Statements by Certified Public Accountants:

(2002)Taiwan-Finance-Securities-VI-144183

Financial-Supervisory-Securities-VI-0970038990

Zhang Zhi-Ming

Accountant:

Huang Jian-Ze

March 18, 2019

United Orthopedic Corporation and its subsidiaries
Consolidated balance sheet
December 31, 2018 and December 31, 2017

Unit: NT$1,000

| Assets | | | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|---|---|
| Code | Accounting item | Note | Amount | % | Amount | % |
| | Current assets | | | | | |
| 1100 | Cash and cash equivalents | 4 and 6.1 | $528,484 | 11 | $401,387 | 9 |
| 1150 | Net notes receivable | 4 and 6.7 | 17,935 | - | 16,754 | - |
| 1170 | Net accounts receivable | 4 and 6.8 | 431,839 | 9 | 367,437 | 9 |
| 1180 | Accounts receivable - related parties (net) | 4, 6.8 and 7 | 211,696 | 4 | 106,001 | 3 |
| 1200 | Other accounts receivable | | 21,406 | - | 15,484 | - |
| 1210 | Other accounts receivable - related parties | 7 | - | - | 106,059 | 2 |
| 1220 | Current income tax assets | 4 and 6.27 | 1,609 | - | - | - |
| 130X | Inventory | 4 and 6.9 | 1,118,660 | 23 | 906,019 | 21 |
| 1410 | Prepayment | | 43,145 | 1 | 63,644 | 2 |
| 1470 | Other current assets | | 6,240 | - | 8,236 | - |
| 11xx | Total current assets | | 2,381,014 | 48 | 1,991,021 | 46 |
| | Non-current Assets | | | | | |
| 1510 | Financial Assets at Fair Value through Profit or Loss - Non-current | 4 and 6.2 | 40 | - | 80 | - |
| 1517 | Financial assets measured at fair value through other comprehensive income - non-current | 4 and 6.3 | 3,483 | - | - | - |
| 1535 | Financial assets at amortized cost - non-current | 4 and 6.4 and 8 | 6,714 | - | - | - |
| 1543 | Financial assets carried at cost - non-current | 4 and 6.5 | - | - | 4,810 | - |
| 1546 | Investment in debt instrument in inactive market - non-current | 4, 6.6 and 8 | - | - | 6,705 | - |
| 1550 | Investment using equity method | 4 and 6.10 | 378,707 | 8 | 407,565 | 9 |
| 1600 | Property, plant and equipment | 4, 6.11 and 8 | 1,491,953 | 31 | 1,360,136 | 32 |
| 1780 | Intangible assets | 4 and 6.12 | 471,893 | 10 | 434,988 | 10 |
| 1840 | Deferred income tax assets | 4 and 6.27 | 85,585 | 2 | 68,646 | 2 |
| 1900 | Other non-current assets | | 30,443 | 1 | 21,460 | 1 |
| 15xx | Total Non-current assets | | 2,468,818 | 52 | 2,304,390 | 54 |
| 1xxx | Total assets | | $4,849,832 | 100 | $4,295,411 | 100 |

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

Chairman: Lin, Yan-Shen | Manager: Lin, Yan-Sheng | Accounting Manager: Deng, Yuan-Chang

United Orthopedic Corporation and its subsidiaries
Consolidated balance sheet (continued)
December 31, 2018 and December 31, 2017

Unit: NT$1,000

| Code | Accounting item | Note | December 31, 2018 Amount | % | December 31, 2017 Amount | % |
|---|---|---|---|---|---|---|
| | Liabilities and Equity | | | | | |
| | Current liabilities | | | | | |
| 2100 | Short-term loans | 4 and 6.14 | $973,982 | 20 | $690,048 | 16 |
| 2110 | Short-term notes and bills payable | 4 and 6.15 | 49,984 | 1 | - | - |
| 2130 | Contract liability - current | 4 and 6.21 | 12,985 | - | - | - |
| 2150 | Notes payable | | 775 | - | 15,073 | - |
| 2170 | Accounts payable | | 67,207 | 1 | 86,181 | 2 |
| 2180 | Accounts payable - related parties | 7 | 33,818 | 1 | 19,733 | - |
| 2200 | Other accounts payable | | 387,738 | 8 | 370,032 | 9 |
| 2220 | Other payables - related parties | 7 | 1,860 | - | - | - |
| 2230 | Current income tax liabilities | 4 and 6.27 | 13,309 | - | 40,019 | 1 |
| 2300 | Other current liabilities | | 9,128 | - | 34,066 | 1 |
| 2322 | Long-term loan due within one year or one operating cycle | 4 and 6.17 | 49,597 | 1 | 64,479 | 2 |
| 21xx | Total current liabilities | | 1,600,383 | 32 | 1,319,631 | 31 |
| | Non-current liabilities | | | | | |
| 2530 | Bonds payable | 4 and 6.16 | 391,223 | 8 | 385,713 | 9 |
| 2540 | Long-term loans | 4 and 6.17 | 493,907 | 10 | 228,500 | 5 |
| 2570 | Deferred income tax liabilities | 4 and 6.27 | 17,330 | - | 19,488 | 1 |
| 2600 | Other non-current liabilities | | 5,238 | - | 1,834 | - |
| 2630 | Long-term deferred income | 610 | 79,792 | 2 | 105,265 | 2 |
| 2640 | Net defined benefit liability - non-current | 4 and 6.18##### | 11,601 | - | 16,856 | - |
| 25xx | Total non-current liabilities | | 999,091 | 20 | 757,656 | 17 |
| 2xxx | Total Liabilities | | 2,599,474 | 52 | 2,077,287 | 48 |
| 31xx | Equity attributable to owners of parent company | 4 and 6.19 | | | | |
| 3100 | Capital | | | | | |
| 3110 | Common stock - capital | | 804,509 | 17 | 797,129 | 19 |
| 3200 | Capital reserve | | 1,280,536 | 27 | 1,243,611 | 29 |
| 3300 | Retained earnings | | | | | |
| 3310 | Statutory surplus reserve | | 68,932 | 2 | 55,906 | 1 |
| 3320 | Special surplus reserve | | 47,655 | 1 | 31,620 | 1 |
| 3350 | Undistributed earnings | | 125,668 | 3 | 129,464 | 3 |
| | Total retained earnings | | 242,255 | 6 | 216,990 | 5 |
| 3400 | Other equity | | | | | |
| 3410 | Exchange differences on translation of foreign financial statements | | (56,254) | (1) | (47,655) | (1) |
| 3420 | Financial assets measured at fair value through other comprehensive income - non-current | | (3,251) | - | - | - |
| 3491 | Employee unearned remuneration | 4 and 6.20 | (35,977) | (1) | (5,160) | - |
| | Total other equity | | (95,482) | (2) | (52,815) | (1) |
| 32xx | Non-controlling equity | | 18,540 | - | 13,209 | - |
| 3xxx | Total Equity | | 2,250,358 | 48 | 2,218,124 | 52 |
| | Total liabilities and equity | | $4,849,832 | 100 | $4,295,411 | 100 |

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

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

United Orthopedic Corporation and its subsidiaries
Consolidated Statement of Comprehensive Income
January 1 to December 31, 2018 and 2017

Unit: NT$1,000

| Code | Accounting item | Notes | 2018 Amount | 2018 % | 2017 Amount | 2017 % |
|---|---|---|---|---|---|---|
| 4000 | Operating Revenue | 4 and 6.21 | $2,332,247 | 100 | $1,972,592 | 100 |
| 5000 | Operating costs | 69 | 716,500 | 31 | 542,968 | 28 |
| 5900 | Gross profit | | 1,615,747 | 69 | 1,429,624 | 72 |
| 5920 | Realized (unrealized) profits from sales | | (14,261) | (1) | (7,193) | - |
| 5950 | Net gross profit | | 1,601,486 | 68 | 1,422,431 | 72 |
| 6000 | Operating expenses | | | | | |
| 6100 | Marketing Expense | | 1,081,897 | 46 | 841,682 | 43 |
| 6200 | Administrative Expense | | 237,434 | 10 | 220,079 | 11 |
| 6300 | R&D Expenses | | 200,454 | 9 | 198,734 | 10 |
| 6450 | Expected credit impairment loss (gain) | 4 and 6.22 | (3,099) | - | - | - |
| | Total operating expenses | | 1,516,686 | 65 | 1,260,495 | 64 |
| 6900 | Operating profit | | 84,800 | 3 | 161,936 | 8 |
| 7000 | Non-operating income and expenses | 4 and 6.25 | | | | |
| 7010 | Other income | | 45,974 | 2 | 40,514 | 2 |
| 7020 | Other profit and loss | | 9,171 | - | (28,629) | (1) |
| 7050 | Financial cost | | (26,802) | (1) | (13,242) | (1) |
| 7060 | Share of the profit and loss of the affiliated enterprises and joint ventures using equity method | | (5,694) | - | 5,083 | - |
| | Total non-operating income and expenses | | 22,649 | 1 | 3,726 | - |
| | | | | | | |
| 7900 | Net income before tax | | 107,449 | 4 | 165,662 | 8 |
| 7950 | Income tax expenses | 4 and 6.27 | (4,957) | - | (54,723) | (3) |
| 8200 | Current period net profit | | 102,492 | 4 | 110,939 | 5 |
| 8300 | Other comprehensive gain or loss | 4 and 6.26 | | | | |
| 8310 | Items that will not be reclassified to profit or loss: | | | | | |
| 8311 | Remeasurement of defined benefit plan | | (1,886) | - | (800) | - |
| 8316 | Unrealized valuation gain (loss) on investments in equity instruments at fair value through other comprehensive | | (2,819) | - | - | - |
| 8320 | Share of other comprehensive profit or loss of affiliates and joint ventures accounted for using equity method - | | (434) | - | - | - |
| 8349 | Income tax expenses (gains) related to items that are not reclassified subsequently to profit or loss: | | - | - | - | - |
| 8360 | Items that may be reclassified to profit or loss | | | | | |
| 8361 | Exchange differences on translation of foreign financial statements | | 630 | - | (11,442) | (1) |
| 8370 | Share of other comprehensive income (loss) of associates and joint ventures accounted for using equity method - | | (8,903) | - | (4,982) | - |
| 8399 | Income tax relating to items that may be reclassified to profits and losses | | - | - | - | - |
| | Comprehensive income or loss (net value after tax) in this period | | (13,412) | - | (17,224) | (1) |
| 8500 | Total amount of comprehensive profit/loss in the year | | $89,080 | 4 | $93,715 | 4 |
| | | | | | | |
| 8600 | Net profit attributable to: | | | | | |
| 8610 | Owners of parent company | | $127,554 | | $130,264 | |
| 8620 | Non-controlling equity | | (25,062) | | (19,325) | |
| | Total | | $102,492 | | $110,939 | |
| | | | | | | |
| 8700 | Total comprehensive income attributable to: | | | | | |
| 8710 | Owners of parent company | | $113,818 | | $113,429 | |
| 8720 | Non-controlling equity | | (24,738) | | (19,714) | |
| | Total | | $89,080 | | $93,715 | |
| | | | | | | |
| | Earnings per share (NT$) | 4 and 6.28 | | | | |
| 9750 | Basic earnings per share | | $1.61 | | $1.78 | |
| | | | | | | |
| 9850 | Diluted earnings per share | | $1.55 | | $1.75 | |

(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, 2018 and 2017

Unit: NT$1,000

| Code | Item | Equity attributable to owners of parent company | | | | | | | | Equity attributable to owners of parent company | Non-controlling equity | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Retained earnings | | | Other Equity | | | | | |
| | | Capital | Capital reserve | Statutory surplus reserve | Special surplus reserve | Undistributed earnings | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) on financial assets at fair value through other comprehensive income | Employee unearned remuneration | | | |
| | | 3100 | 3200 | 3310 | 3320 | 3350 | 3410 | 3420 | 3491 | 31XX | 36XX | 3XXX |
| 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 |
| | 2016 earnings distribution | | | | | | | | | | | |
| B1 | Appropriate statutory surplus reserve | - | - | 14,660 | - | (14,660) | - | - | - | - | - | - |
| B3 | Appropriate statutory surplus reserve | - | - | - | 31,620 | (31,620) | - | - | - | - | - | - |
| B5 | Common stock cash dividends | - | - | - | - | (99,554) | - | - | - | (99,554) | - | (99,554) |
| C5 | Equity recognized in convertible corporate bonds | | | | | | | | | | | |
| | Component – derived from share options | - | 16,600 | - | - | - | - | - | - | 16,600 | - | 16,600 |
| D1 | 2017 net loss | - | - | - | - | 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 comprehensive profit/loss in the year | - | - | - | - | 129,464 | (16,035) | - | - | 113,429 | (19,714) | 93,715 |
| E1 | Capital increase | 80,000 | 304,000 | - | - | - | - | - | - | 384,000 | - | 384,000 |
| M7 | Changes in ownership equity of subsidiaries | - | (4,539) | - | - | - | - | - | - | (4,539) | 4,539 | - |
| N1 | Share-based payment transaction - employee stock options | - | 13,555 | - | - | - | - | - | - | 13,555 | - | 13,555 |
| N2 | Share-based payment transaction - new restricted employee 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 |
| A1 | Balance on January 1st, 2018 | $797,129 | $1,243,611 | $55,906 | $31,620 | $129,464 | $(47,655) | $- | $(5,160) | $2,204,915 | $13,209 | $2,218,124 |
| | 2017 earnings distribution | | | | | | | | | | | |
| B1 | Appropriate statutory surplus reserve | - | - | 13,026 | - | (13,026) | - | - | - | - | - | - |
| B3 | Appropriate statutory surplus reserve | - | - | - | 16,035 | (16,035) | - | - | - | - | - | - |
| B5 | Common stock cash dividends | - | - | - | - | (100,403) | - | - | - | (100,403) | - | (100,403) |
| D1 | 2018 net profit | - | - | - | - | 127,554 | - | - | - | 127,554 | (25,062) | 102,492 |
| D3 | Other comprehensive profit/loss in 2018 | - | - | - | - | (1,886) | (8,599) | (3,251) | - | (13,736) | 324 | (13,412) |
| D5 | Total amount of comprehensive profit/loss in the year | - | - | - | - | 125,668 | (8,599) | (3,251) | - | 113,818 | (24,738) | 89,080 |
| M7 | Changes in equity of ownership of subsidiaries | - | 1,903 | - | - | - | - | - | - | 1,903 | (1,903) | - |
| N1 | Share-based payment transaction - employee stock options | - | 1,470 | - | - | - | - | - | - | 1,470 | - | 1,470 |
| N2 | Share-based payment transaction - new restricted employee shares | 7,380 | 33,552 | - | - | - | - | - | (30,817) | 10,115 | - | 10,115 |
| O1 | Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | 31,972 | 31,972 |
| Z1 | Balance on December 31, 2018 | $804,509 | $1,280,536 | $68,932 | $47,655 | $125,668 | $(56,254) | $(3,251) | $(35,977) | $2,231,818 | $18,540 | $2,250,358 |

(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 Cash Flow

January 1 to December 31, 2018 and 2017

Unit: NT$1,000

| Code | Item | 2018 Amount | 2017 Amount | Code | Item | 2018 Amount | 2017 Amount |
|---|---|---|---|---|---|---|---|
| AAAA | Cash flow from operating activities: | | | | | | |
| A10,000 | Current net profit before tax | $107,449 | $165,662 | BBBB | Cash flow from investment activities | | |
| A20000 | Adjustment items: | | | B00010 | Financial assets measured at fair value through other comprehensive income | (1,926) | - |
| A20010 | Income/expense items that do not affect cash flow: | | | B00040 | Acquisition of financial assets at amortized cost | (9) | - |
| A20100 | Depreciation expenses | 197,911 | 135,464 | B00600 | Investment in debt instrument in non-active market | - | (385) |
| A20200 | Amortization expense | 16,871 | 14,928 | B01200 | Financial assets acquired at cost | - | (1,460) |
| A20300 | Expected credit impairment (gain) loss | (3,099) | 698 | B02200 | Acquisition of subsidiaries (less the cash received) | - | (526,883) |
| A20400 | Net losses (gains) on financial assets measured at fair value through profit and loss | 40 | (40) | B02700 | Acquisition of property, plant and equipment | (323,550) | (571,092) |
| A20900 | Interest Expense | 26,802 | 13,242 | B02800 | Disposal of real property, plant, and equipment | 111 | 15 |
| A21200 | Interest Income | (2,995) | (2,426) | B03700 | Increases in refundable deposits | (8,983) | (5,414) |
| A21900 | Share-based payment remuneration cost | 11,585 | 21,817 | B04500 | Intangible assets acquired | (53,641) | (13,342) |
| A22300 | Share of the loss (profit) of affiliates and joint ventures recognized under equity method | 5,694 | (5,083) | B04600 | Disposal of intangible assets | - | 4,049 |
| A22500 | Loss on disposal of property, plant and equipment | 734 | 458 | BBBB | Net cash outflow from investing activities | (387,998) | (1,114,512) |
| A22800 | Gain on disposal of intangible assets | - | (724) | | | | |
| A24000 | Gain on realized sales | 14,261 | 7,193 | | | | |
| A29900 | Other income | (25,473) | (25,474) | | | | |
| A30000 | Changes in assets/liabilities related operating activities | | | CCCC | Cash from financing activities | | |
| A31130 | Increases in bills receivable | (1,181) | (13,502) | C00100 | Increases in short-term loans | 277,548 | 294,423 |
| A31150 | Increases in accounts receivable | (61,310) | (67,223) | C00500 | Increases in short-term notes and bills payable | 49,984 | - |
| A31160 | Account receivable - increase in related parties | (105,695) | (37,361) | C00600 | Decrease in short-term bills payables | - | (50,000) |
| A31180 | Increases in other payables | (5,858) | (6,434) | C01200 | Corporate bonds issuance | - | 400,000 |
| A31190 | Other accounts receivable - increases in related parties | 106,059 | 1,215 | C01600 | Long-term loans raised | 257,140 | 99,897 |
| A31200 | Increases in inventories | (212,641) | (215,510) | C01700 | Long-term loans repaid | (6,615) | - |
| A31220 | Decreases (increases) in prepaid expenses | 18,890 | (1,459) | C03000 | Increases in guarantee deposits | 44 | - |
| A31240 | Decreases (increases) in other current assets | 1,996 | (4,228) | C03100 | Decrease in guarantee deposits | - | (1,612) |
| A32125 | Increase in contract liabilities | 811 | - | C04300 | Increase in other non-current liabilities | 3,360 | 1,680 |
| A32130 | Increases (decreases) in bills payable | (14,298) | 7,928 | C04500 | Cash dividend payout | (100,403) | (99,554) |
| A32150 | Increases (decreases) in accounts payable | (18,974) | 38,411 | C04600 | Capital increase | - | 384,000 |
| A32160 | Accounts payable - increases in related parties | 14,085 | 6,165 | C05500 | Disposal of equity interests in subsidiaries (control not lost) | 31,972 | - |
| A32180 | Increases in other payables | 14,605 | 54,444 | C05600 | Interest paid | (18,246) | (10,808) |
| A32190 | Other payables - increases in related parties | 1,860 | - | CCCC | Net cash inflow from financing activities | 494,784 | 1,018,026 |
| A32230 | (Increase) decrease in other current liabilities | (12,764) | 7,295 | | | | |
| A32240 | Decreases in net defined benefit liability | (7,141) | (6,427) | | | | |
| A33000 | Cash inflow generated by operation | 68,224 | 89,029 | DDDD | Impacts on cash and cash equivalents from changes in exchange rates | 1,957 | (1,688) |
| A33100 | Interest income received | 2,931 | 2,460 | EEEE | Net increase (decrease) in cash and cash equivalents | 127,097 | (76,539) |
| A33500 | Income tax paid | (52,801) | (69,854) | E00100 | Balance of cash and cash equivalents, beginning of year | 401,387 | 477,926 |
| AAAA | Net cash inflow from operating activities | 18,354 | 21,635 | E00200 | Balance of cash and cash equivalents, End of Year | $528,484 | $401,387 |

(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 Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Stated)

## I. Company History

United Orthopedic Corporation (hereinafter referred to as the Corporation) was established on March 5, 1993. Its primary operations include research, development, production, manufacturing, and sales of orthopedic implants and orthopedic surgical instruments; manufacturing equipment, special metal and plastics materials, as well as the import and export of beforementioned products.

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

## II. Approval Date and Procedures of the Financial Statements

The consolidated financial statements of the Corporation and its subsidiaries ("the Group") for 2018 and 2017 were authorized for issue by the Board of Directors on March 18, 2019.

## III. Adoption of New and Amended Standards and Interpretations

1. Changes in accounting policies due to the first-time adoption of the International Financial Reporting Standards (IFRSs):

   The Group has adopted the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Committee Interpretations (IFRIC) or Interpretations of the Standing Interpretations Committee (SIC) that have been approved by the Financial Supervisory Commission (hereinafter referred to as the FSC) for the fiscal year beginning after January 1, 2018. Except for the nature and effects of the following new standards and interpretations, the first-time adoption of these standards have no significant impact on the Group:

(1) IFRS 15 "Revenue from Contracts with Customers" (including relevant clarifications associated with IFRS 15 "Revenue from Contracts with Customers")

IFRS 15 replaces IAS 11 "Construction Contracts", IAS 18 "Revenue" and relevant interpretations. The Group chooses to recognize the cumulative effect of the first-time adoption on the initial application date (i.e. January 1, 2018) in accordance with the transitional provisions of IFRS 15 and to retrospectively apply IFRS 15 to contracts that are not completed on that date.

The Group's revenue from contracts with customers mostly involves the sale of goods. The impact of IFRS 15 on the Group's recognition of revenue is as follows:

A. Please refer to Note 4 for accounting policies adopted by the Group after and prior to January 1, 2018.

B. Prior to January 1, 2018, the Group recognizes revenue from the sale of goods when the products are delivered to the customers. For reporting periods starting on or after January 1, 2018, revenue is recognized when the promised products are transferred to the customers and the performance obligation is satisfied under IFRS 15. The adoption of IFRS 15 does not have any material impact on the Group's recognition of revenue from the sale of goods. As for contracts where goods are transferred to customers without the Group having an unconditional right to receive considerations, contract assets shall be recognized instead of accounts receivables as prior to January 1, 2018. Moreover, contract assets shall be assessed for loss allowance in accordance with IFRS 9 "Financial Instruments". In comparison to the adoption of IAS 18, the Corporation's accounts receivables do not have to be reclassified to contract assets.

C. As for contracts where a part of the considerations is collected upon signing the contracts, the Group assumes the obligations to transfer the goods subsequently. Prior to January 1, 2018, the considerations collected in advance are recognized as other current liabilities. After January 1, 2018, they are recognized as contract liabilities in accordance with IFRS 15. The Group reclassified NT$12,174 thousand from other current liabilities to contract liabilities on January 1, 2018. In addition, as of December 31, 2018, other current liabilities decreased by NT$12,985 thousand and contract liabilities increased by NT$12,985 thousand comparing to the adoption of IAS 18.

D. Please refer to Notes 4, 5 and 6 for additional disclosures required by IFRS 15.

(2) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39. In accordance with the transitional provisions of IFRS 9, the Group chooses not to restate the comparative periods upon the initial application date (i.e. January 1, 2018). The effects of adopting IFRS 9 are as follows:

A. The Group adopts IFRS 9 starting from January 1, 2018 and prior to this date, IAS 39 is used. Please refer to Note 4 for details on accounting policies.

B. In accordance with the transitional provisions of IFRS 9, the business model is assessed and the financial assets are classified into appropriate categories pursuant to IFRS 9 based on the facts and circumstances that exist as of January 1, 2018. The classifications and carrying amounts of those financial assets as of January 1, 2018 are as follows:

| IAS 39 | | IFRS 9 | |
|---|---|---|---|
| Measurement Category | Carrying Amount | Measurement Category | Carrying Amount |
| Measured at fair value through other comprehensive income (FVTOCI) | | Measured at FVTOCI | $4,810 |
| Available-for-sale financial assets (including ones measured at cost of NT$4,810) | $4,810 | | |
| Measured at amortized cost | | Measured at amortized cost (including cash and cash equivalents, notes receivable, accounts receivable, financial assets measured at amortized cost and other receivables) | 6,705 |
| Loans and receivables (including cash and cash equivalents, notes receivable, accounts receivable, investments in debt instrument with no active market and other receivables) | 6,705 | | |
| Total | $11,515 | Total | $11,515 |

C. Detailed information concerning the changes in the classifications of financial assets and financial liabilities for the transition from IAS 39 to IFRS 9 as of January 1, 2018 is as follows:

| IAS 39 | | IFRS 9 | | | | |
|---|---|---|---|---|---|---|
| Account | Carrying Amount | Account | Carrying Amount | Difference | Adjustment on Retained Earnings | Adjustment on Other Equity |
| Available-for-sale financial assets (including initial investment cost of NT$4,810 which is separately listed as measured at cost) (Note 1) | $4,810 | Measured at FVTOCI (equity instruments) | $4,810 | $- | $- | $- |
| Loans and receivables (Note 2) | | | | | | |
| Investments in debt instrument with no active market | 6,705 | Financial assets measured at amortized cost | 6,705 | - | - | - |
| Total | $11,515 | Total | $11,515 | | $- | $- |

Note:

1. Investments classified as available-for-sale financial assets in accordance with IAS 39 include investments in funds, stocks and bonds of listed (OTC) companies and non-listed (OTC) stocks. Details concerning the changes in classification are as follows:

   Investments in stocks (both listed (OTC) and non-listed (OTC) stocks)

   The assessment is conducted based on the facts and circumstances that exist as of January 1, 2018. As these equity instruments are not held-for-trading, the Group chooses to designate them as financial assets at FVTOCI. The amount reclassified from available-for-sale financial assets (including those measured at cost) to financial assets at FVTOCI was NT$4,810 thousand as of January 1, 2018. Other relevant adjustments are as follows:

   Impairment was not recognized for the non-listed (OTC) stocks with initial carrying amount of NT$4,810 thousand under IAS 39. However, under IFRS 9, those stocks shall be measured at fair value and the recognition of impairment loss is not required.

2. For items classified as loans and receivables in accordance with IAS 39, their cash flows are solely payments of principal and interest on the outstanding principal. Based on the facts and circumstances that exited as of January 1, 2018, as the business model is assessed to be one that collects contractual cash flows, they are measured at amortized cost. In addition, no adjustment arisen from the impairment assessment conducted in accordance with IFRS 9 on January 1, 2018. Thus, the carrying amount as of January 1, 2018 was not affected. The Group merely reclassified investments in debt instruments with no active market of NT$6,705 thousand to financial assets measured at amortized cost (a total of NT$6,705 thousand).

D. Please refer to Notes 4, 5, 6 and 12 for disclosures required by IFRS 7 and IFRS 9.

(3) Disclosure Initiative (Amendments to IAS 7 "Statement of Cash Flows")

A reconciliation between the opening and closing balances for liabilities arising from financing activities of the Group is provided. Please refer to Note 12 for disclosures required.

2. The Group has not adopted the following new, revised and amended standards or interpretations issued by International Accounting Standards Board (IASB) and endorsed by FSC:

| No. | New, Revised and Amended Standards or Interpretations | Effective Date Announced by IASB |
|---|---|---|
| 1 | IFRS 16 "Leases" | January 1, 2019 |
| 2 | IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| 3 | Amendments to IAS 28 "Investments in Associates and Joint Ventures" | January 1, 2019 |
| 4 | Prepayment Features with Negative Compensation (Amendments to IFRS 9) | January 1, 2019 |
| 5 | Improvements to IFRSs 2015-2017 cycle | January 1, 2019 |
| 6 | Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) | January 1, 2019 |

(1) IFRS 16 "Leases"

The new standard requires lessees to adopt a single accounting model for all leases except for short-term leases or leases of low value assets, i.e. to recognize right-of-use assets and lease liabilities on the balance sheets, and lease-related depreciation and interest expense on the statements of comprehensive income. Moreover, lessors continue to classify leases as operating or finance leases. However, more extensive disclosure is required.

(2) IFRIC 23 "Uncertainty over Income Tax Treatments"

The interpretation clarifies the application of recognition and measurement requirements under IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

(3) Amendments to IAS 28 "Investments in Associates and Joint Ventures"

The amendments clarify that prior to the adoption of IAS 28, IFRS 9 shall be used to account for the long-term interests that form part of the net investment in the associates or joint ventures. Also, during the application of IFRS 9, adjustments arising from the adoption of IAS 28 shall not be considered.

(4) Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments allow financial assets with prepayment features (parties to the contract may pay or receive reasonable compensation for early termination of the contracts) to be measured at amortized cost or at FVTOCI.

(5) Improvements to IFRS (2015-2017 cycle)

*IFRS 3 "Business Combinations"*

The amendments clarify that when an entity having joint control over a joint operation obtains control of the joint operation, it shall remeasure previously held interests in that business.

*IFRS 11 "Joint Arrangements"*

The amendments clarify that when an entity that participates in (but has no joint control over) a joint operation obtains joint control over the joint operation, it shall not remeasure previously held interests in that business.

*IAS 12 "Income Taxes"*

The amendments clarify that entities shall recognize income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on how the originating transaction or event that has given rise to the dividends is recognized.

*IAS 23 "Borrowing Costs"*

The amendments clarify that when an asset is ready for its intended use or sale, the entity shall treat borrowings related specifically to the acquisition of such an asset as general borrowings.

(6) Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that when changes occurred to the defined benefit plan (e.g. amendment, curtailment or settlement), entities shall remeasure the net defined benefit liability or asset using the updated assumptions.

The abovementioned new, revised and amended standards or interpretations are issued by IASB and endorsed by FSC to take effect from January 1, 2019. Except for (1) with effects listed below, the adoption of these new, revised and amended standards and interpretations will not have a significant effect on the Group:

(1) IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases － Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease". The effect of IFRS 16 on the Group is as follows:

A. For definition of leases, the Group adopts the transitional provisions of IFRS 16 and elects not to reevaluate whether contracts are (or contain) leases on the initial application date (i.e. January 1, 2019). Contracts previously identified as leases under IAS 17 and IFRS 4 are now subject to IFRS 16. For contracts previously identified as not containing leases under IAS 17 and IFRS 4, IFRS 16 does not apply.

As a lessee, the Group elects not to restate the comparative information in accordance with the transitional provisions of IFRS 16 and recognizes cumulative effect of initial application as an adjustment to the opening balance of retained earnings (or other component of equity, if appropriate) on January 1, 2019.

Leases classified as operating lease

The Group plans to measure leases classified as operating leases under IAS 17 by the present value of remaining lease payments (discounted using the incremental borrowing rate of lessee as of January 1, 2019) and recognize lease liabilities on January 1, 2019. In addition, the right-of-use assets are measured and recognized on a lease-by-lease basis using one of the following amounts:

i. the carrying amount of the right-of-use assets as if IFRS 16 has applied since the beginning of leases. However, the amount shall be discounted by the incremental borrowing rate of lessee as of January 1, 2019, or

ii. the amount of lease liabilities, adjusted for all prepaid or accrued lease payments associated with the leases (recognized in the balance sheet immediately before January 1, 2019).

The Group's right-of-use assets and lease liabilities are expected to increase by NT$197,612 thousand and NT$197,612 thousand, respectively, on January 1, 2019.

B. The Group provides additional disclosures in accordance with the lessee and lessor provisions of IFRS 16.

3. As of the date of issuance of the financial statements, the Group has not adopted the following new, revised and amended standards or interpretations issued by IASB and but not yet endorsed by FSC:

| No. | New, Revised and Amended Standards or Interpretations | Effective Date Announced by IASB |
|---|---|---|
| 1 | Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined by the IASB |
| 2 | IFRS 17 "Insurance Contracts" | January 1, 2021 |

| | | |
|---|---|---|
| 3 | Amendments to IFRS 3 "Business Combinations" | January 1, 2020 |
| 4 | Definition of Material (Amendments to IAS 1 and IAS 8) | January 1, 2020 |

(1) Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The plan deals with the inconsistency between IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" in relation to the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 states that when non-monetary assets are contributed in exchange for an interest in an associate or a joint venture, the share of gains or losses shall be eliminated in accordance with the treatments of a downstream transaction. However, IFRS 10 requires a full recognition of gains or losses arising from the loss of control of a subsidiary. The amendments place restrictions on the above-mentioned rules of IAS 28 so that gains or losses shall be recognized in full for sale or contribution of assets that constitute a business as defined in IFRS 3.

The amendments also change IFRS 10 so that gains or losses arising from the sale or contributions of a subsidiary, that does not constitute a business as defined in IFRS 3, between an investor and its associate or joint venture are recognized only to the extent of their shares owned by non-investors.

(2) IFRS 17 "Insurance Contracts"

This standard provides a comprehensive model for insurance contracts, including all accounting-related parts (i.e. principles of recognition, measurement, presentation and disclosure). The core of the standard is the general model. Under this model, the Group measures a group of insurance contracts at the total of fulfilment cash flows and contractual service margin upon initial recognition. The fulfilment cash flows include:

1. Estimates of future cash flows;
2. Discount rate: an adjustment that reflects the time value of money and the financial risks associated with future cash flows (where the financial risks are not included in the estimates of future cash flows); and
3. Risk adjustment for non-financial risks.

The carrying amount of the group of insurance contracts at the end of each reporting period is the sum of the liability for remaining coverage and the liability for claims incurred.

In addition to the general model, it also provides the following:

1. Specific applicable method for contracts with direct participation features (variable fee approach); and
2. Simplified short-term contract method (premium allocation approach)

(3) Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business under IFRS 3 "Business Combinations", assisting enterprises in identifying whether a transaction shall be accounted for as a business combination or acquisition of assets. IFRS 3 continues to adopt market participants' perspective in determining whether the activities or assets acquired are considered a business. Actions taken include clarifying the minimum requirements of a business, adding guidance to help enterprises assessing whether the acquisition process is substantive, and narrowing the definitions of a business and outputs.

(4) Definition of Material (Amendments to IAS 1 and IAS 8)

Material information is redefined to be: if it can be reasonably expected that the omission, misstatement or obscurity of such information would have effect on decisions made by primary users of general-purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. Enterprises shall determine whether the information, either individually or combined with other information, is material in the financial statements. If information can be reasonably expected to have effect on primary users, the misstatement of such information is considered material.

Aforementioned are standards or interpretations which have been published by IASB, but not yet endorsed by the FSC. The actual application dates will be set by the FSC. Except for the new, revised and amended standards or interpretations as per Point (1) which are currently assessed by the Group for their potential effects and the impacts of aforementioned standards or interpretations on the Group cannot be reasonably estimated for now, other new, revised and amended standards or interpretations do not have significant impact on the Group.

## IV. Summary of Significant Accounting Policies

### 1. Statement of compliance

The consolidated financial statements for the years ended December 31, 2018 and 2017 have been prepared in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and IFRSs, IASs, IFRIC interpretations and SIC interpretations endorsed and issued into effect by FSC.

2. Basis of preparation

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

3. Basis of consolidation

<u>Preparation principle of consolidated financial statements</u>

Control is achieved when the Corporation is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Corporation controls an investee if and only if it has:

(1) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
(2) Exposure, or rights, to variable returns from its involvement with the investee, and

(3) The ability to use its power over the investee to affect its returns.

When the Corporation directly or indirectly has less than a majority of the voting or similar rights over an investee, the Corporation considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(1) The contractual arrangement with the other vote holders of the investee
(2) Rights arising from other contractual arrangements
(3) The voting rights and potential voting rights

The Corporation reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three control elements.
Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are adjusted to be in line with the accounting policies used by the parent company. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests (NCIs) even if this results in a deficit balance of the NCIs.

If the Group loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

| Name of Investor | Name of Subsidiary | Principal Activities | Percentage of Ownership 107.12.31 | Percentage of Ownership 106.12.31 | Note |
|---|---|---|---|---|---|
| The Corporation | United Medical (B.V.I.) Corporation | Sales and investment | - | 100.00% | Note 3 |
| The Corporation | UOC America Holding Corporation | Sales and investment | 100.00% | 100.00% | |
| The Corporation | UOC Europe Holding SA | Sales and investment | 96.00% | 88.00% | Note 1 |
| The Corporation | United Biomech Japan | Sales | 53.00% | 59.00% | Note 2 |
| The Corporation | A-Spine Asia Co., Ltd. | Sales, investment and manufacturing | 99.40% | 100.00% | Note 4 |
| United Medical (B.V.I.) Corporation | Lemax Co., Ltd. | Investment | - | 100.00% | Note 3 |
| UOC America Holding Corporation | UOC USA, Inc. | Sales | 100.00% | 100.00% | |
| UOC Europe Holding SA | UOC (Suisse) SA | Sales | 100.00% | 100.00% | |
| UOC Europe Holding SA | UOC (France) | Sales | 100.00% | 100.00% | |
| A-Spine Asia Co., Ltd. | Pauline Medical Co., Ltd. | Sales | 100.00% | 100.00% | |

Note 1: The Group has invested in UOC Europe Holding SA since the second quarter of 2016. As of December 31, 2018, the accumulated outward remittance of investment amounted to CHF11,500 thousand (equivalent to NT$358,430 thousand).

Note 2: The Group has invested in United Biomech Japan since the third quarter of 2016. As of December 31, 2018, the accumulated outward remittance of investment amounted to JPY204,000 thousand (equivalent to NT$58,261 thousand).

Note 3: The liquidation of United Medical (B.V.I.) Corporation and Lemax Co., Ltd. were completed on September 30, 2018.

Note 4: The Group has invested in A-Spine Asia Co., Ltd. since the first quarter of 2018. As of December 31, 2018, the accumulated outward remittance of investment amounted to NT$650,480 thousand.

4. Foreign currency transactions

The Group's consolidated financial statements are presented in New Taiwan Dollars, which is the Corporation's functional currency. Each entity in the Group determines its own functional currency and items in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recognized by each entity of the Group at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the closing rates of that date; non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value is measured; and non-monetary items measured at historical cost that are denominated in foreign currencies are retranslated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement or translation of monetary items are recognized in profit or loss in the period in which they arise, except for the following:

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

(2) Foreign currency items within the scope of IFRS 9 "Financial Instruments" (prior to January 1, 2018: IAS 39) are accounted for based on the accounting policies for financial instruments.

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

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

5. Translation of foreign-currency financial statements

In the preparation of consolidated financial statements, the assets and liabilities of foreign operations are translated into New Taiwan Dollars using the closing rates at the reporting date and income and expense items are translated at the average exchange rates for the period. The exchange differences arising on the translation are recognized in other comprehensive income. Upon disposal of the foreign operations, the cumulative exchange differences recognized in other comprehensive income and accumulated in the separate component of equity are reclassified from equity to profit or loss when recognizing the gain or loss on disposal. The partial disposal involving the loss of control of a subsidiary that includes a foreign operation, and the partial disposal of interests in an associate or a joint arrangement that includes a foreign operation while the retained interests are financial assets that include a foreign operation are accounted for as disposals.

On the partial disposal of a subsidiary that includes a foreign operation while retaining control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the NCIs in that foreign operation instead of being recognized in profit or loss. In partial disposal of an associate or a joint arrangement that includes a foreign operation while retaining significant influence or joint control, the proportionate share of the cumulative amount of the exchange differences is reclassified to profit or loss.

Goodwill arising from the acquisition of a foreign operation and fair value adjustments on the carrying amounts of assets and liabilities of such an acquisition are deemed as assets and liabilities of the foreign operation and expressed in the functional currency of the foreign operation.

6. Classification of current and non-current assets and liabilities

An asset is classified as current when it meets the following conditions, and all other assets are classified as non-current:

(1) The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
(2) The Group holds the asset primarily for the purpose of trading.
(3) The Group expects to realize the asset within twelve months after the reporting period.

(4) The asset is cash or cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current when it meets the following conditions, and all other liabilities are classified as non-current:

(1) The Group expects to settle the liability in its normal operating cycle.
(2) The Group holds the liability primarily for the purpose of trading.
(3) The liability is due to be settled within twelve months after the reporting period.

(4) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

7. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including time deposits with terms equal to or less than twelve months).

8. Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 "Financial Instruments" (prior to January 1, 2018: IAS 39) are recognized initially at fair value plus or minus transaction costs that are directly attributable to the acquisition or issuance of the financial assets or financial liabilities, except for financial assets and financial liabilities at fair value through profit or loss (FVTPL).

(1) Recognition and measurement of financial assets

**<u>Accounting treatment starting from January 1, 2018 is as follows:</u>**

The Group accounts for regular way recognition or derecognition of financial assets on the trade date basis.

The Group classifies financial assets as subsequently measured at amortized cost, at FVTOCI or at FVTPL based on the following two conditions:

A. Business model for managing the financial assets, and
B. Contractual cash flow characteristics of the financial assets

<u>Financial assets measured at amortized cost</u>

A financial asset satisfying both conditions below is measured at amortized cost and presented as notes receivables, accounts receivables, financial assets measured at amortized cost and other receivables on the balance sheet:

A. Business model for managing the financial assets: the financial asset is held to collect its contractual cash flows, and
B. Contractual cash flow characteristics of the financial assets: cash flows are solely payments of principal and interest on the outstanding principal.

These financial assets (excluding ones involved in a hedging relationship) are subsequently measured at amortized cost {the amount initially recognized less principal repayments, plus or minus the cumulative amortization of the difference between the initial amount and the maturity amount (calculated using the effective interest method), and adjusted for loss allowance}. A gain or loss is recognized in profit or loss when the financial asset is derecognized, going through the amortization process or recognizing the impairment gains or losses.

Interest calculated by the effective interest method (applying the effective interest rate to the gross carrying amount of financial assets) or under one of the follow situations is recognized in profit or loss:

A. For purchased or originated credit-impaired financial assets, interest is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial assets.
B. For financial assets that do not belong to the former category but subsequently have become credit-impaired, interest is calculated by applying the effective interest rate to the amortized cost of the financial assets.

Financial assets at FVTOCI

A financial asset satisfying both conditions below is measured at FVTOCI and presented as financial assets at FVTOCI on the balance sheet:

A. Business model for managing the financial assets: the financial asset is held to collect its contractual cash flows and for sale, and
B. Contractual cash flow characteristics of the financial assets: cash flows are solely payments of principal and interest on the outstanding principal.

Recognition of gain or loss on such a financial asset is described below:

A. Prior to its derecognition or reclassification, the gain or loss on a financial asset at FVTOCI is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains or losses, which are recognized in profit or loss.
B. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
C. Interest calculated by the effective interest method (applying the effective interest rate to the gross carrying amount of financial assets) or under one of the follow situations is recognized in profit or loss:

   (a) For purchased or originated credit-impaired financial assets, interest is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial assets.
   (b) For financial assets that do not belong to the former category but subsequently have become credit-impaired, interest is calculated by applying the effective interest rate to the amortized cost of the financial assets.

In addition, for an equity instrument within the scope of IFRS 9 that is not held for trading and the contingent consideration recognized by an acquirer in a business combination under IFRS 3 does not apply, the Group makes an (irrevocable) election at initial recognition to present its subsequent changes in the fair value in other comprehensive income. Amounts presented in other comprehensive income cannot be subsequently transferred to profit or loss (upon disposal of such equity instrument, its cumulative amount in other equity is transferred directly to retained earnings) and shall be recognized as a financial asset measured at FVTOCI on the balance sheet. Dividends from the investment are recognized in profit or loss unless they clearly represent the recovery of a part of the investment cost.

Financial assets at FVTPL

Except for financial assets that are measured at amortized cost or at FVTOCI due to the satisfaction of certain conditions, all other financial assets are measured at FVTPL and presented as financial assets at FVTPL on the balance sheet.

Those financial assets are measured at fair value and the gains or losses resulting from their remeasurement are recognized in profit or loss, which include dividends or interests received on such financial assets.

**Accounting treatment prior to January 1, 2018 is as follows:**

The Group accounts for regular way recognition or derecognition of financial assets on the trade date basis.

Financial assets of the Group are classified as financial assets at FVTPL, held-to-maturity investments, available-for-sale financial assets, and loans and receivables. The Group determines the classification of its financial assets at initial recognition based on their natures and purposes.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition as at FVTPL.

A financial asset is classified as held for trading if:

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

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at FVTPL; or a financial asset may be designated as at FVTPL upon initial recognition when doing so results in more relevant information, because either:

A. It eliminates or significantly reduces a measurement or recognition inconsistency; or
B. A group of financial assets, financial liabilities or both is managed and its

performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel of the consolidated entity.

Those financial assets are measured at fair value with gains or losses arising from remeasurement recognized in profit or loss. Those gains and losses include dividends or interests (including those received during the period of initial investment) on those financial assets.

If those financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

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

Exchange differences resulting from changes in the carrying amount of available-for-sale monetary financial assets, interest income calculated using the effective interest method relating to available-for-sale financial assets and dividends on an available-for-sale equity instrument are recognized in profit or loss. All other changes in the carrying amount of available-for-sale financial assets are recognized in equity until the investment is derecognized, at which time the cumulative gain or loss under equity is reclassified to profit or loss.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and meet the following conditions: not classified as at FVTPL, not designated as available-for-sale, or not those for which the holder may not recover substantially all of its initial investment due to credit worsening.

Loans and receivables are separately presented on the balance sheet as receivables or bond investments with no active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and transaction costs. Amortization calculated using the effective interest method is recognized in profit or loss.

(2) Impairment of financial assets

**Accounting treatment starting from January 1, 2018 is as follows:**

The Group recognizes and measures the loss allowance for debt instrument investments at FVTOCI and financial assets measured at amortized cost at an amount equal to expected credit losses. The loss allowance on debt instrument investments at FVTOCI is recognized in other comprehensive income and does not reduce the carrying amount of the investments.

The Group measures expected credit loss in a way that reflects:

A. An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
B. Time value of money; and
C. Reasonable and supportable information about past events, current conditions and forecasts of future economic conditions (that is available without undue cost or effort at the balance sheet date)

Loss allowance is measured as follows:

A. At an amount equal to 12-month expected credit losses: including financial assets whose credit risk has not increased significantly since initial recognition or ones that are determined to have low credit risk at the balance sheet date. In addition, financial assets whose loss allowance is measured at an amount equal to lifetime expected credit losses in the previous reporting period, but the condition of a significant increase in credit risk since initial recognition is no longer met at the current balance sheet date shall also be included.
B. At an amount equal to lifetime expected credit losses: including financial assets whose credit risk has increased significantly since initial recognition or purchased or originated credit-impaired financial assets.
C. For accounts receivables or contract assets arising from transactions within the

scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each balance sheet date, the Group assesses whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default at the reporting date and initial recognition. Please refer to Note 12 for further details on credit risk.

**Accounting treatment prior to January 1, 2018 is as follows:**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the ones at FVTPL is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has a negative impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss.

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

Other loss events may include:

A. Significant financial difficulty of the issuer or counterparty; or
B. Breach of contract, such as a default or delinquency in interest or principal payments; or
C. It becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
D. The disappearance of an active market for the financial asset due to financial difficulties of the issuer.

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

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

For equity instruments classified as available-for-sale, the impairment amount recognized is the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss, and it shall be reclassified from equity to profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in the fair value after impairment are recognized directly in equity.

For debt instruments classified as available-for-sale, the impairment amount recognized is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the effective interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss shall be reversed through profit or loss.

(3) Derecognition of financial assets

Financial assets held by the Group are derecognized when one of the following conditions applies:

A. The contractual rights to the cash flows from the financial asset expire.
B. The Group has transferred substantially all the risks and rewards of ownership of the asset to another party.
C. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(4) Financial liabilities and equity instruments

Classification between liabilities and equity

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

Equity instruments

An equity instrument is any contract of the Group that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issuance costs.

Compound instruments

The Group evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Group assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the host contract before separating the equity element.

For liability component excluding derivatives, its fair value is determined based on the market interest rate of an equivalent non-convertible bond. This component is classified as a financial liability measured at amortized cost before the instrument is converted or settled. For the embedded derivative that is not closely related to the economic characteristics and risks of the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal to the amortized cost of the debt instrument on each exercise date), it is classified as a liability component and subsequently measured at FVTPL unless it qualifies for an equity component. The equity component is determined as the residual amount after

deducting from the fair value of the convertible bond the amount of the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IFRS 9 (prior to January 1, 2018: IAS 39).
Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instrument is initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of its liability component is adjusted to the carrying amount as of the conversion date to be the recognition basis for the issuance of common stocks.

Financial liabilities

Financial liabilities within the scope of IFRS 9 (prior to January 1, 2018: IAS 39) are classified as financial liabilities at FVTPL or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated as at FVTPL.

A financial asset is classified as held for trading if:

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

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at FVTPL; or a financial liability may be designated as at FVTPL upon initial recognition when doing so results in more relevant information, because either:

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

Gains or losses on the remeasurement of those financial liabilities, including interest paid, are recognized in profit or loss.

Prior to January 1, 2018, if those financial liabilities do not have quoted prices in an active market and their fair value cannot be reliably measured, they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include payables and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Relevant gains or losses and amortization amounts are recognized in profit or loss when the liabilities are derecognized and amortized through the effective interest rate method.

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

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

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

(5) Offsetting of financial assets and liabilities

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

9. Derivative financial instruments

The Group uses derivative instruments held or issued to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at FVTPL except for derivatives that are designated effective hedging instruments which are classified as derivative assets or liabilities for hedging.

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

Prior to January 1, 2018, derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at FVTPL. However, after January 1, 2018, the aforementioned requirements continue to apply to the host contracts that are financial liabilities or non-financial assets.

10. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes the transaction of selling an asset or transferring a liability takes place in one of the following markets:

(1) The primary market for the asset or liability; or
(2) If there is no primary market, the most advantageous market for the asset or liability

The principal or most advantageous markets shall be the ones that the Corporation have access to and can transact in.

Assumptions that market participants would use when pricing the asset or liability are used in the fair value measurement. Market participants are assumed to act in their economic best interest.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation adopts valuation technique which is appropriate and has sufficient data under the circumstances for fair value measurement. The use of relevant observable inputs is maximized and the use of unobservable inputs is minimized.

11. Inventories

Inventories are valued at the lower of cost or net realizable value item by item.

Costs refer to costs incurred in bringing each inventory to its available-for-sale or available-for-production status and location. They are accounted for as follows:

Raw materials – Actual purchase cost, adopting the weighted average method.

Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs.

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

From January 1, 2018, the provision of labor is handled in accordance with IFRS 15. It is not within the scope of inventory.

12. Investments accounted for using the equity method

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

Under the equity method, the investment in the associates or joint ventures is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associates or joint ventures. After the carrying amount and other related long-term interests in associates or joint ventures are reduced to zero under the equity method, additional losses and liabilities are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates. Unrealized gains and losses resulting from transactions between the Group and the associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures.

When changes in the ownership interest of associates or joint ventures are not caused by profit or loss and other comprehensive income items and do not affect the Group's ownership percentages in those entities, the Group recognizes all changes in ownership interest based on its ownership percentage. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associates or joint ventures on a pro rata basis.

When the associates or joint ventures issue new shares and the Group's shares in the net assets of those entities has changed as a result of failing to acquire shares newly issued in proportion to its original ownership interest, the changes are adjusted through capital surplus and investments accounted for using the equity method. When the interest in the associates or joint ventures is reduced, relevant items previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate accounts by the reduced percentage. The aforementioned capital surplus recognized shall be reclassified to profit or loss upon the disposal of the associates or joint ventures on a pro rata basis.

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

The Group determines at each reporting date whether there is any objective evidence indicating that its investment in the associates or joint ventures is impaired in accordance with IAS 28 "Investments in Associates and Joint Ventures" (prior to January 1, 2018: IAS 39). If there is objective evidence of impairment, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint ventures and their carrying value and recognizes it in the share of profit or loss of associates or joint ventures in accordance with IAS 36 "Impairment of Assets". If the investment's value in use is adopted as the recoverable amount, the Group determines the value in use based on the following estimates:

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

Because goodwill that forms part of the carrying amount of the investment in associates or joint ventures is not separately recognized, the impairment test on goodwill of IAS 36 "Impairment of Assets" does not apply.

Upon loss of significant influence over the associates or joint control over the joint ventures, the Group measures and recognizes the retaining investment at its fair value. The difference between the carrying amount of the associates or joint ventures upon loss of significant influence or joint control and the fair value of the retaining investment plus proceeds from disposal is recognized in profit or loss. Moreover, when investments in the associates become investments in joint ventures, or vice versa, the Group will continue to adopt the equity method without remeasuring the reserved interests.

13. Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and necessary borrowing costs for construction in progress. Each part of property, plant and equipment that is significant is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts separately as individual assets with specific useful lives and depreciation methods. The carrying amount of those parts is derecognized in accordance with the provisions of IAS 16 "Property, Plant and Equipment." When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement cost if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

| | |
|---|---|
| Buildings | 3 to 50 years |
| Machinery and equipment | 3 to 15 years |
| Tooling equipment (except for forging die) | 2 to 5 years |
| Transportation equipment | 5 years |
| Information equipment | 3 to 5 years |
| Other equipment | 3 to 10 years |
| Leasehold improvements | Over the shorter of the lease terms or useful lives |

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

The residual values, useful lives and depreciation methods of property, plant and equipment are reviewed at the end of each financial year. If the expected values differ from the estimates, the differences are recorded as a change in accounting estimate.

14. Leases

The Group being a lessee

A finance lease transfers substantially all of the risks and rewards associated with the underlying asset's ownership to the Group and on the commencement date of the lease period, the lower of the fair value of lease assets or the present value of minimum lease payments is capitalized. Rent payments are allocated to financing expense and decreases in lease liabilities. The financing expense is determined by the balance of residual liabilities at a fixed interest rate and recognized in profit or loss.

Lease assets are depreciated over the assets' useful lives. However, if it cannot be reasonably certain that the Group will obtain the ownership of the assets at the end of lease term, depreciation is recognized over the shorter of the assets' useful lives or lease term.

Lease payments under operating leases are recognized as expenses on a straight-line basis during the lease term.

The Group being a lessor

Leases where the Group does not transfer substantively all of the risks and rewards of the underlying assets' ownership are classified as operating leases. Initial direct costs arising from setting up the operating leases are recognized as an addition to the carrying amount of lease assets and on the same basis as rent income during the lease term. Rent income from operating leases are accounted for on a straight-line basis over the lease term. Contingent rents are recognized as income as earned.

15. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, which fail to meet the recognition criteria, are not capitalized. They are recognized in profit or loss as incurred.

The useful lives of intangible assets are categorized as either finite or indefinite.

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

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. Intangible assets with indefinite life are reviewed at each reporting period to determine whether there are events and circumstances continuing to support the classification of indefinite life. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss.

Intangible assets under development – research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when they meet the following conditions:

(1) The intangible asset under development has achieved technical feasibility and is available for use or sale.
(2) The Group intends to complete the asset and has the ability to use or sell the asset.
(3) The asset will generate future economic benefits.
(4) There are sufficient resources to complete the asset.
(5) Expenditures during the development stage can be reliably measured.

Following initial recognition of the capitalized development expenditure, the cost model is applied, i.e. the asset is required to be carried at cost less any accumulated amortization and accumulated impairment losses. During the development period, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

Technical skill

Technical skills are granted 15 years of right-of-use and amortized on a straight-line basis.

Trademark and franchise

Trademark and franchise are granted 5 to 10 years of right-of-use and amortized on a straight-line basis.

Brand

Brands are used to represent a group of complementary assets, such as trademarks (or service marks) and their related trade names, formulae, secrets, and expertise, which are amortized over fifteen years.

Computer software

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

The Group's accounting policies for intangible assets are summarized as follows:

| | Intangible assets under development | Trademark and franchise | Brand | Technical skill | Computer software |
|---|---|---|---|---|---|
| Useful life | Finite | Finite | Finite | Finite | Finite |
| Amortization method | Amortized on a straight-line basis over the forecast sales period for the related projects | Amortized on a straight-line basis over the estimated useful life | Amortized on a straight-line basis over the estimated useful life | Amortized on a straight-line basis over the estimated useful life | Amortized on a straight-line basis over the estimated useful life |
| Internal production or external acquisition | Internal production | External acquisition | From merger | External acquisition | External acquisition |

16. Impairment of non-financial assets

The Group assesses whether there is any indication that an asset in the scope of IAS 36 "Impairment of Assets" may be impaired at the end of each reporting period. If any such indication exists, or when annual impairment testing for an asset is required, the Group would conduct impairment tests at individual or CGU level. Where the carrying amount of an asset or its CGU exceeds its recoverable amount, the asset is considered impaired. An asset's recoverable amount is the higher of an asset's net fair value or its value in use.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

A CGU, or groups of CGUs, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of goodwill, then to the other assets pro rata based on the carrying amount of each asset. Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

Impairment loss or reversals of continuing operations are recognized in profit or loss.

17. Revenue recognition

**Accounting treatment starting from January 1, 2018 is as follows:**

The Group's revenue from contracts with customers mostly involves the sale of goods. The accounting treatment is detailed as follows:

Sale of goods

The Group manufactures and sells goods. Revenues are recognized when goods have been delivered to the customers and customers have obtained control (i.e. the customers can direct the use of goods and obtain substantially all remaining benefits from the goods). The main products of the Group are orthopedic implants, etc. Revenues are recognized based on the prices stated on the contracts.

The credit terms of accounts receivable are set at 60 to 180 days. Accounts receivables are recognized when the control over goods is transferred and the Group has an unconditional right to collect the considerations. Those accounts receivables usually have a short collection period and do not have a significant financing component. As for contracts where goods are transferred to customers without the Group having an unconditional right to receive considerations, contract assets shall be recognized. Contract assets shall be assessed for loss allowance at an amount equal to lifetime expected credit losses in accordance with IFRS 9. As for contracts where a part of the considerations is collected upon signing the contracts, the Group assumes the obligations to transfer the goods subsequently. Thus, they are recognized as contract liabilities.

As it usually takes less than one year for the said contract liabilities to be reclassified to revenue, no significant financing component has arisen.

**Accounting treatment prior to January 1, 2018 is as follows:**

Revenue is recognized when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The criteria and methods for revenue recognition are as follows:

Sale of goods

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

Interest income

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

Dividend income

Dividend income is recognized when the Group's right to receive the payment is established.

18. Post-employment benefit plans

The post-employment regulations of the Corporation and its domestic subsidiaries are applicable to all regular employees hired through official procedures. The retirement fund is managed by the Supervisory Committee of Labor Retirement Reserve and deposited in the specific account for the retirement fund. As the abovementioned pension is deposited in the name of the Supervisory Committee of Labor Retirement Reserve, it is not associated with the Corporation and its subsidiaries. Therefore, it is not included in the consolidated financial statements. The retirement regulations for employees of foreign subsidiaries comply with local law and regulations.

For post-employment benefit plan that is classified as a defined contribution plan, the Corporation and its domestic subsidiaries' monthly contribution rate for employees' pension shall not be lower than 6% of employees' monthly salary. The contribution amount is recognized as an expense as incurred. For foreign subsidiaries, they make contributions, which are recognized as expenses as incurred, based on specific local percentages.

For post-employment benefit plan that is classified as a defined benefit plan, the Projected Unit Credit Method is adopted to measure the obligations and costs based on actuarial report at the end of annual reporting period. The remeasurements of net defined benefit liability (asset) include return on plan assets and any changes in the effect of the asset ceiling, and exclude amounts included in the net interest on the net defined benefit liability (asset) and actuarial gains and losses. The remeasurements of net defined benefit liability (asset) are recognized in other comprehensive income in the periods they occur and immediately recognized in the retained earnings. Past service cost is the change in the present value of defined benefit obligation due to plan amendments or curtailments. It is recognized as an expense at the earlier of the following two dates:

(1) When a plan amendment or curtailment occurs; and
(2) The date when the Group recognizes any related restructuring costs or termination benefits.

Net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the discount rate. Both net defined benefit liability (asset) and discount rate are determined at the beginning of annual reporting period. Changes in net defined benefit liability (asset) due to actual contributions and benefits paid during the period shall be taken into consideration.

19. Share-based payment transactions

The cost of equity-settled transactions between the Group and its employees is recognized based on the fair value of the equity instruments on the grant date. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the service conditions and performance are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative cost recognized for share-based payment transactions as at the beginning and end of that period is recognized as profit or loss for the period.

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

Where the terms of equity-settled transactions are modified, the minimum expense recognized is the cost of original awards as if they were not modified. Additional equity-settled transaction costs are recognized where the modifications on the terms of the share-based payment transactions increase the total fair value of the share-based payment transactions or are beneficial to the employees.

Where equity-settled awards are cancelled, they are deemed as fully vested on the cancellation date, and the unrecognized remaining share-based payment expenses, including awards where non-vesting conditions within the control of the entity or employees are not met, shall be recognized immediately. However, if the awards cancelled are substituted by new awards which are designated as replacement award on the grant date, the cancelled and new awards are deemed as modifications to the original awards.

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

For the issuance of restricted stock awards, salary expenses are recognized based on the fair value of equity instruments on the grant date, together with a corresponding increase in equity over the vesting period. The Group recognized unearned employee salary, which is a transitional account, on the grant date as a deduction to equity on the consolidated balance sheet and the amount in the account will be reclassified to salary expenses over the passage of vesting period.

20. Income tax

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

Current income tax

Current income tax liabilities (assets) for the current and prior periods are measured based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity respectively, instead of in profit or loss.

The 10% income tax for undistributed earnings is recognized as income tax expense in the year when the distribution proposal is approved by the shareholders' meeting.

Deferred income tax

Deferred income tax is the temporary difference between the tax bases of assets and liabilities and their carrying amounts in balance sheet at the reporting date.

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

(1) Where the taxable temporary differences arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (loss);
(2) Where the taxable temporary differences is associated with investments in subsidiaries, associates and joint ventures and the timing of its reversal can be controlled; and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, any unused tax losses and carryforward of unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

(1) Where the deferred income tax asset is related to the deductible temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
(2) Where the deferred income tax asset is related to the deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. The deferred income tax asset is recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred income tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred income tax relating to items recognized outside profit or loss cannot be recognized as profit or loss. Instead, it is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred income tax assets are reassessed and recognized at each reporting date.

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

21. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at fair value as at the acquisition date. For each business combination, the acquirer measures any NCI in the acquiree either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under general and administrative expenses.

When the Group acquires a business, it assesses the assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in acquiree's host contracts.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date and the resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IFRS 9 (prior to January 1, 2018: IAS 39) either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the excess amount of the aggregate of the consideration transferred and the NCI over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the CGU retained.

## V. Significant Accounting Judgments, Estimates and Assumptions

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

### 1. Judgements

In the process of adopting the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognized in the financial statements:

Judgement on whether development expenditures are eligible for capitalization

The Group determines whether the intangible asset developed and produced internally has achieved technical feasibility and will be available for use or sale mainly due to the Group's judgements, which are made based on the facts that the Group has controlled the sophisticated technology as well as resources required for the research and development projects, and the development schedule along with product specifications are confirmed. In addition, the Group evaluates whether the asset is expected to generate future economic benefits and whether the benefits will be greater than the cost of the relevant investments.

Only when the research and development project meets the aforementioned conditions would the Group reclassifies development expenditures attributable to the project to intangible assets under development.

2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may result in significant risks for a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below:

(1) Inventory valuation

The estimates of net realizable value for inventory take into account inventory spoilage, total or partial obsolescence or selling price declines. They are based on the most reliable evidence available when those estimates are made. Please refer to Note 6 for details.

(2) Impairment of non-financial assets

An impairment loss occurs when the carrying amount of an asset or its CGU exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less cost of disposal or its value in use. The calculation of the fair value less costs of disposal is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, net of incremental costs directly attributable to the disposal or the CGU. Value in use is calculated based on the discounted cash flows model. The estimates of cash flows are based on the budget for the next five years and exclude the Group's uncommitted restructuring, or future major investments required to reinforce the asset performance of the tested CGU. The recoverable amount is easily affected by the discount rate used in the discounted cash flows model and the expected future cash inflows and growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amounts of different CGUs, including the sensitivity analysis, are disclosed in Note 6.

(3) Post-employment benefit plans

The cost of pension plan and the present value of defined benefit obligation within the post-employment benefit plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the discount rates and expected future salary changes. The assumptions used for measuring pension cost and defined benefit obligation are disclosed in Note 6.

(4) Share-based payment transactions

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

(5) Income tax

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

Deferred income tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred income tax assets to be recognized is based upon the likely timing and the level of future taxable income and taxable temporary differences together with future tax planning strategies. Deferred income tax assets unrecognized by the Group as of December 31, 2018 are disclosed in Note 6.

## VI. Important Accounting Items

### 1. Cash and cash equivalents

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Cash on hand | $839 | $284 |
| Checks and demand deposits | 364,339 | 276,181 |
| Time deposits | 163,262 | 124,922 |
| Deposits in transit | 44 | - |
| Total | $528,484 | $401,387 |

### 2. Financial assets at fair value through profit and loss (FVTPL)

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Mandatorily measured at FVTPL: | | |
| Convertible corporate bond with embedded derivative instruments | $40 | (Note) |
| Held for trading: | | |
| Convertible corporate bond with embedded derivative financial instruments | (Note) | $80 |
| Total | $40 | $80 |
| Non-current | $40 | $80 |

Note: The Group has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

Financial assets at FVTPL were not pledged.

### 3. Financial assets at fair value through other comprehensive income (FVTOCI)

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Investments in equity instruments at FVTOCI - non-current: | | |
| Unlisted stocks | | |
| Changgu Biotech Corporation | $1,957 | (Note) |
| Taiwan Main Orthopaedic Biotechnology Co., Ltd. | 1,526 | (Note) |
| Net | $3,483 | (Note) |

Note: The Group has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

(1) Financial assets at FVTOCI were not pledged.

(2) As of December 31, 2018, the investment in Changgu Biotech Corporation was NT$4,776 thousand, acquiring 477,568 shares, and the shareholding ratio was 19.26%.

(3) As of December 31, 2018, the amount invested in Taiwan Main Orthopaedic Biotechnology Co., Ltd. by a subsidiary, A-Spine Asia Co., Ltd., is NT$1,960 thousand, acquiring 196,040 shares, and the shareholding ratio was 3.77%.

4. Financial assets measured at amortized cost

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Time deposits | $6,714 | (Note) |
| Less: Loss allowance | - | (Note) |
| Total | $6,714 | (Note) |
| Non-current | $6,714 | (Note) |

Note: The Group has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

The Group classifies certain financial assets as financial assets measured at amortized cost. Please refer to Note 6(22), Note 8 and Note 12 for more details on allowance for impairment loss, pledge, and credit risk disclosures, respectively.

5. Financial assets measured at cost - non-current

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Available-for-sale financial assets - stocks | (Note) | $4,810 |

Note: The Group has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

(1) Prior to January 1, 2018, the above investments in unlisted entities were accounted for using IAS 39. Their fair value cannot be reliably measured as the variability in the range of reasonable fair value measurements is significant and the probabilities of the various estimates within the range cannot be reasonably assessed. Therefore, these investments are measured at cost.

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

6. Bond investments with no active market

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Time deposits | (Note) | $6,705 |
| Non-current | (Note) | $6,705 |

Note: The Group has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

Prior to January 1, 2018, the Group classified certain financial assets as bond investments with no active market under IAS 39. Please refer to Note 8 for more details on the aforementioned bond investments pledged.

7. Notes receivable

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Notes receivable - arising from operation | $17,935 | $16,754 |
| Less: Loss allowance | - | - |
| Total | $17,935 | $16,754 |

Notes receivables were not pledged.

The Group has adopted IFRS 9 since January 1, 2018 to evaluate impairment loss. Please refer to Note 6(22) and Note 12 for more details on loss allowance and credit risk disclosures, respectively.

8. Accounts receivables and accounts receivable - related parties

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Accounts receivable | $439,162 | $377,890 |
| Less: Loss allowance | (7,323) | (10,453) |
| Sub-total | 431,839 | 367,437 |
| Accounts receivable - related parties | 211,696 | 106,001 |
| Less: Loss allowance | - | - |
| Total | $643,535 | $473,438 |

The Group's subsidiary, United Orthopedic Corporation (France), has pledged a guarantee financing of account receivables. Please refer to note 8 for details. According to the contract, the cash received from these accounts shall be used to repay the borrowing first, and the rest of the account receivables are not pledged.

Trade receivables are generally on 60-180 day terms. The Group has adopted IFRS 9 since January 1, 2018 to evaluate impairment loss. Please refer to Note 6(22) for more details on loss allowance in 2018.  Prior to January 1, 2018, the Group adopted IAS 39 for impairment evaluation. The movements in the provision for impairment of accounts receivables and accounts receivables – related parties and aging analysis of

2017 are as follows (please refer to Note 12 for credit risk disclosures):

| | Individually Assessed Impairment Loss | Collectively Assessed Impairment Loss | Total |
|---|---|---|---|
| 106.1.1 | $- | $9,825 | $9,825 |
| Charge/reversal for the current period | - | 698 | 698 |
| Incurred from business combination | - | 42 | 42 |
| Exchange differences | - | (112) | (112) |
| 106.12.31 | $- | $10,453 | $10,453 |

Aging analysis of net accounts receivables that are past due as at the end of the reporting period is as follows:

| | Not past due nor impaired | Accounts receivables past due but not impaired | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | <=30 days | 31-60 days | 61-90 days | 91-120 days | Over 121 days | |
| 106.12.31 | $409,369 | $42,488 | $16,852 | $2,614 | $1,192 | $923 | $473,438 |

9. Inventories

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Merchandises | $50,414 | $24,067 |
| Finished goods | 717,307 | 581,133 |
| Work-in-process | 246,280 | 190,484 |
| Raw materials | 104,659 | 110,335 |
| Total | $1,118,660 | $906,019 |

(1) The cost of inventories recognized as expenses by the Group is listed below:

| Item | 2018 | 2017 |
|---|---|---|
| Cost of sales | $709,244 | $475,213 |
| Allowance for inventory valuation and obsolescence loss | 7,256 | 67,755 |
| | $716,500 | $542,968 |

(2) No inventories aforementioned were pledged.

10. Investments accounted for using the equity method

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

| | 2018.12.31 | | 2017.12.31 | |
|---|---|---|---|---|
| Investee name | Amount | Shareholding Ratio | Amount | Shareholding Ratio |
| Investments in associates: | | | | |
| Shinva United Orthopedic Corporation | $378,707 | 49% | $407,565 | 49% |

Investments in associates

Information of the Group's significant associates is as follows:

Company name: Shinva United Orthopedic Corporation

Relation: The Corporation engages in the manufacturing or sales of products associated with the Group's industry chain. For integration of upstream and downstream businesses, we decided to invest in this company.

Primary operation place (registration country): China.

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

Summarized financial information and reconciliation of the investment's carrying amount:

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Current assets | $366,288 | $411,106 |
| Non-current assets | 526,947 | 601,765 |
| Current liabilities | (25,312) | (115,157) |
| Non-current liabilities | - | - |
| Equity | 867,923 | 897,714 |
| Shareholding ratio of the Group | 49% | 49% |
| Sub-total | 425,282 | 439,880 |
| Elimination and adjustment due to inter- | (46,575) | (32,315) |

| | | |
|---|---|---|
| company transactions | | |
| Carrying amount of investments | $378,707 | $407,565 |

| | 2018 | 2017 |
|---|---|---|
| Operating revenue | $602 | $- |
| Net (loss) profit of continuing business units for this period | (11,622) | 10,374 |
| Other comprehensive income or loss | - | - |
| Comprehensive income or loss for this period | (11,622) | 10,374 |

The Corporation has invested CNY 30,000 thousand, equivalent to NT$149,844 thousand, to the associate by way of technical value, which was recognized as long-term deferred income. Starting from the service provision date, this amount is amortized on a straight-line basis for three years. As of December 31, 2018 and 2017, the accumulated amortization amounted to NT$70,052 thousand and NT$44,579 thousand, respectively.

The aforementioned investments in associates did not have contingent liabilities or capital commitments as of December 31, 2018 and 2017 and were not pledged.

## 11. Property, plant and equipment

| | Land | Buildings | Machinery and equipment | Tooling equipment | Information equipment | Leasehold improvements | Other equipment | Unfinished constructions and equipment to be tested | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | | |
| 2018.1.1 | $174,589 | $470,856 | $472,820 | $76,151 | $11,640 | $11,477 | $492,014 | $57,251 | $1,766,798 |
| Additions | - | 3,699 | 21,141 | 21,459 | 2,249 | 3,656 | 210,299 | 61,047 | 323,550 |
| Disposals | - | (1,144) | (12,186) | (8,988) | (563) | (471) | (20,707) | - | (44,059) |
| Reclassification | - | 13,505 | 67,342 | - | - | 600 | 12,370 | (93,817) | - |
| Effect of exchange rate changes | - | - | - | - | 22 | 77 | 8,193 | - | 8,292 |
| 2018.12.31 | $174,589 | $486,916 | $549,117 | $88,622 | $13,348 | $15,339 | $702,169 | $24,481 | $2,054,581 |
| | | | | | | | | | |
| 2017.1.1 | $87,763 | $214,195 | $413,172 | $64,792 | $8,978 | $10,042 | $314,245 | $137,005 | $1,250,192 |
| Additions | 86,826 | 36,466 | 16,009 | 15,993 | 3,023 | 3,133 | 195,547 | 214,095 | 571,092 |
| Acquired through business combination | - | - | 2,403 | 295 | 301 | 2,198 | 4,293 | - | 9,490 |
| Disposals | - | - | (25,115) | (5,055) | (1,494) | (3,913) | (14,008) | - | (49,585) |
| Reclassification | - | 220,195 | 66,351 | 126 | 849 | 185 | 6,898 | (293,844) | 760 |
| Effect of exchange rate changes | - | - | - | - | (17) | (168) | (14,961) | (5) | (15,151) |
| 2017.12.31 | $174,589 | $470,856 | $472,820 | $76,151 | $11,640 | $11,477 | $492,014 | $57,251 | $1,766,798 |
| | | | | | | | | | |
| Depreciation and amortization: | | | | | | | | | |
| 2018.1.1 | $- | $30,481 | $159,202 | $28,537 | $5,702 | $5,283 | $177,457 | $- | $406,662 |
| Depreciation | - | 15,279 | 46,730 | 11,705 | 2,599 | 4,765 | 116,833 | - | 197,911 |
| Disposals | - | (1,145) | (12,186) | (8,249) | (563) | (448) | (20,623) | - | (43,214) |
| Reclassification | - | - | - | - | 66 | - | (66) | - | - |
| Effect of exchange rate changes | - | - | - | - | 10 | 50 | 1,209 | - | 1,269 |
| 2018.12.31 | $- | $44,615 | $193,746 | $31,993 | $7,814 | $9,650 | $274,810 | $- | $562,628 |
| | | | | | | | | | |
| 2017.1.1 | $- | $22,671 | $147,100 | $23,292 | $4,946 | $5,897 | $119,044 | $- | $322,950 |
| Depreciation | - | 7,810 | 35,822 | 9,724 | 2,263 | 3,120 | 76,725 | - | 135,464 |
| Acquired through business combination | - | - | 1,395 | 104 | - | 171 | 226 | - | 1,896 |
| Disposals | - | - | (25,115) | (4,583) | (1,494) | (3,912) | (14,008) | - | (49,112) |
| Reclassification | - | - | - | - | - | 95 | 665 | - | 760 |
| Effect of exchange rate changes | - | - | - | - | (13) | (88) | (5,195) | - | (5,296) |
| 2017.12.31 | $ | $30,481 | $159,202 | $28,537 | $5,702 | $5,283 | $177,457 | $- | $406,662 |
| | | | | | | | | | |
| Net carrying amount: | | | | | | | | | |
| 2018.12.31 | $174,589 | $442,301 | $355,371 | $56,629 | $5,534 | $5,689 | $427,359 | $24,481 | $1,491,953 |
| 2017.12.31 | $174,589 | $440,375 | $313,618 | $47,614 | $5,938 | $6,194 | $314,557 | $57,251 | $1,360,136 |

(1) The major parts of the Group's buildings are main building, mechatronic engineering and refurbishment engineering, etc., and they are depreciated over their useful lives of 50, 20 and 5 years, respectively.

(2) Please refer to Note 8 for details on property, plant and equipment pledged.

## 12. Intangible assets

| | Computer software cost | Specialized technology | Development expenditure | Trademark and licensing rights | Goodwill | Brand | Total |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| 2018.1.1 | $14,193 | $- | $41,451 | $1,909 | $292,891 | $107,940 | $458,384 |
| Additions - separate acquisition | 9,585 | 7,650 | 36,406 | - | - | - | 53,641 |
| Disposals | - | - | - | - | - | - | - |
| Others | (3,936) | - | - | - | - | - | (3,936) |
| Effect of exchange | 72 | - | - | 101 | - | - | 173 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| rate changes | | | | | | | |
| 2018.12.31 | $19,914 | $7,650 | $77,857 | $2,010 | $292,891 | $107,940 | $508,262 |
| 2017.1.1 | $15,595 | $- | $31,232 | $6,124 | $- | $- | $52,951 |
| Additions - separate acquisition | 3,123 | - | 10,219 | - | - | - | 13,342 |
| Acquired through business combination | 2,034 | - | - | - | 292,891 | 107,940 | 402,865 |
| Disposals | - | - | - | (4,049) | - | - | (4,049) |
| Others | (6,560) | - | - | - | - | - | (6,560) |
| Effect of exchange rate changes | 1 | - | - | (166) | - | - | (165) |
| 2017.12.31 | $14,193 | $- | $41,451 | $1,909 | $292,891 | $107,940 | $458,384 |
| | | | | | | | |
| Amortization and impairment: | | | | | | | |
| 2018.1.1 | $8,158 | $- | $9,332 | $509 | $- | $5,397 | $23,396 |
| Amortization | 4,425 | 43 | 4,815 | 392 | - | 7,196 | 16,871 |
| Disposals | - | - | - | - | - | - | - |
| Others | (3,936) | - | - | - | - | - | (3,936) |
| Effect of exchange rate changes | 1 | - | - | 37 | - | - | 38 |
| 2018.12.31 | $8,648 | $43 | $14,147 | $938 | $- | $12,593 | $36,369 |
| 2017.1.1 | $9,007 | $- | $5,207 | $408 | $- | $- | $14,622 |
| Amortization | 4,562 | - | 4,125 | 844 | - | 5,397 | 14,928 |
| Acquired through business combination | 1,149 | - | - | - | - | - | 1,149 |
| Disposals | - | - | - | (724) | - | - | (724) |
| Others | (6,560) | - | - | - | - | - | (6,560) |
| Effect of exchange rate changes | - | - | - | (19) | - | - | (19) |
| 2017.12.31 | $8,158 | $- | $9,332 | $509 | $- | $5,397 | $23,396 |
| | | | | | | | |
| Net carrying amount: | | | | | | | |
| 2018.12.31 | $11,266 | $7,607 | $63,710 | $1,072 | $292,891 | $95,347 | $471,893 |
| 2017.12.31 | $6,035 | $- | $32,119 | $1,400 | $292,891 | $102,543 | $434,988 |

## 13. Goodwill impairment test

For the purpose of impairment test, goodwill obtained through business combination has only one cash generating unit (which is also the operating and reportable segment), as shown below:

The carrying amount of goodwill and franchise allocated to each cash generating unit:

ASA cash generating unit

| | 107.12.31 | 106.12.31 |
|---|---|---|
| Goodwill | $292,891 | $292,891 |

The recoverable amount of the ASA cash generating unit has been determined based on the value in use, which is calculated using the cash flow forecasts of five-year financial budget approved by the management. The cash flow forecasts have been updated to reflect changes in the demand of related products. The pre-tax discount rate used for cash flow forecasts was 13.97% on December 31, 2018, and cash flows after the five-year period was extrapolated at a growth rate of 5% on December 31, 2018. This growth rate is equivalent to the long-term average growth rate of the industry. Based on the analysis, the management determined that there is no sign of impairment on goodwill.

Key assumptions used to calculate the value in use

The calculation of ASA cash generating unit's value in use is most sensitive to the following assumptions:

(1) Gross margin
(2) Discount rate
(3) Increase in raw material price
(4) Market share during the budget period; and
(5) Cash flow growth rate used for extrapolation for period exceeding the budget period

Gross margin - Gross margin is calculated based on the average gross margin achieved during the first three years from the beginning of the financial budget period and is expected to increase during the budget period due to increased efficiency.

Discount rate - Discount rate represents the market's assessment of the specific risk for each cash generating unit at the time (regarding the time value of the money and the individual asset risk that has not yet been included in the cash flow estimation). The discount rate calculation is based on the specific circumstances of the Group and its operating divisions and is derived from its weighted average cost of capital (WACC). The WACC also takes into account liabilities and equity. The cost of equity is derived from the expected return on investment of the Group's investors, while the cost of liabilities is calculated based on the interest-bearing borrowings which the Group is obligated to repay. The division-specific risks are incorporated using individual beta factors, which are evaluated annually based on publicly-available market data.

Market share assumptions - These assumptions are important, as the management uses the industry data to estimate the growth rate, while assessing the changes in the unit's market position during the budget period relative to the competitors. The management expects the Group's market share will remain stable during the budget period. As explained in preceding sections, the Board expects that the Group's market position will be more stable than the competitors after the acquisition of A-Spine Asia Co., Ltd.

Estimation of growth rate - growth rate is estimated based on published industry research data. The long-term average growth rate of the ASA cash generating unit budget was extrapolated in connection with the above-mentioned reasons.

Sensitivity of changes in assumptions

Regarding the assessment of the ASA cash generating unit's value in use, the management believes that the aforementioned key assumptions are not likely to change for the carrying amount of the unit to be significantly greater than its recoverable amount.

14. Short-term loans

| | 107.12.31 | 106.12.31 |
|---|---|---|
| Unsecured bank loans | $973,982 | $678,560 |
| Secured bank loans | - | 11,488 |
| Total | $973,982 | $690,048 |
| Interest rate range (%) | 0.7928-3.8500 | 0.9700-2.8800 |

(1) As of December 31, 2018 and 2017, the Group's unused bank facilities were US$1,500 thousand and NT$1,041,381 thousand, and US$1,000 thousand and NT$1,116,800 thousand, respectively.

(2) The collaterals of secured bank loans were account receivables of United Orthopedic Corporation (France), a subsidiary of the Group. Please refer to Note 8 for details on the pledge.

15. Short-term notes and bills payable

| | 107.12.31 | 106.12.31 |
|---|---|---|
| Short-term notes and bills payable | $50,000 | $- |
| Less: Discounts on commercial notes payable | (16) | - |
| Net | $49,984 | $- |
| Interest rate range (%) | 0.5200 | - |

14. Bonds payable

| | 107.12.31 | 106.12.31 |
|---|---|---|

| | | |
|---|---|---|
| Domestic unsecured bonds payable | $391,223 | $385,713 |
| Less: Liabilities due within one year | - | - |
| Long-term domestic convertible bonds payable | $391,223 | $385,713 |

(1) Domestic convertible bonds payable

| | 107.12.31 | 106.12.31 |
|---|---|---|
| Liability elements: | | |
| Nominal amount of domestic convertible bonds payable | $400,000 | $400,000 |
| Converted amount | - | - |
| Discount on domestic convertible bonds payable | (8,777) | (14,287) |
| Sub-total | 391,223 | 385,713 |
| Less: Liabilities due within one year | - | - |
| Net | $391,223 | $385,713 |
| Embedded derivatives | $40 | $80 |
| Equity elements | $16,600 | $16,600 |

On August 11, 2017, the Corporation issued domestic unsecured convertible bonds with a coupon rate of 0%. The convertible bonds are analyzed based on the contract clauses, and the composition elements include primary debts, embedded derivatives (option of redemption for the issuer), and equity elements (bondholders have the option to request for conversion into issuer's ordinary shares). Primary issuance clauses are as follows:

Total amount of issuance: NT$400,000 thousand. Nominal amount per bond is NT$100 thousand and the bonds are issued at their nominal value.

Period of Issuance: August 11, 2017 to August 11, 2020.

Critical clauses for redemption:

A. On the next day after the convertible bonds were issued for three full months (November 13, 2017) till 40 days prior to the end of issuance period (July 2, 2020), if the closing price of the Corporation's common stock at the Taipei Exchange exceeds conversion price by more than 30 percent (inclusive) for 30 consecutive business days, the Corporation may inform the bondholders that it will recall all of its outstanding convertible bonds by cash at the nominal amount.

B. On the next day after the convertible bonds were issued for three full months (November 13, 2017) till 40 days prior to the end of issuance period (July 2, 2020), if the balance of outstanding convertible bonds is lower than NT$40,000 thousand (10% of the original issuance amount), the Corporation may recall all of its outstanding convertible bonds by cash at the nominal amount at any subsequent period.

C. If the bondholder fails to respond to the Corporation's share registrar in writing before the final bond recall date set out in the "Bond Recall Notice", the Corporation will recall the bonds by cash on the due date.

Conversion methods:

A. Converted target: Common stocks of the Corporation.

B. Conversion period: From November 12, 2017 to August 11, 2020, the bond holders can request for conversion into the Corporation's common stocks instead of cash redemption by the Corporation.

C. Conversion price and adjustment: The conversion price upon issuance was set at NT$77.30 per share. Where incidents occur and the Corporation's common stocks meet the issuance clauses for conversion price adjustment, the conversion price shall be adjusted in accordance to the formula stipulated in the issuance clauses. As of December 31, 2018 and 2017, the conversion price was NT$73.40 and NT$75.00 per share, respectively.

D. Redemption on maturity date: The Corporation's outstanding bonds will be redeemed in cash upon maturity at 101.5075% of the nominal amount (real return of 0.5%).

The bonds have not been converted as of December 31, 2018.

17. Long-term loans

Details of long-term loans for the years ended December 31, 2018 and 2017 are as follows:

| Creditor | 2018.12.31 | Interest rate (%) | Repayment period and method |
|---|---|---|---|
| Taiwan Cooperative Bank - Hsinchu Science Park Branch | $2,153 | 1.5500 | Between January 29, 2014 and January 29, 2019; the first repayment was due on January 29, 2015; principal is to be repaid by 17 equal installments of NT$2,153 thousand every three months. |
| " | 47,543 | 1.4000 | Between September 18, 2013 and October 31, 2031; the first repayment was due on September 18, 2014; principal is to be repaid by 70 equal installments of NT$914 thousand every three months. |
| " | 41,412 | 1.5500 | Between September 2, 2016 and September 2, 2021; the first repayment was due on September 2, 2017; principal is to be repaid by 17 equal installments of NT$3,765 thousand every three months. |
| CTBC Bank | $19,666 | 1.3000 | Between October 19, 2017 and October 19, 2022; the first repayment was due on |

| Creditor | 2018.12.31 | Interest rate (%) | Repayment period and method |
|---|---|---|---|
| | | | October 19, 2018; repayments of NT$111 thousand is to be made every month; the remaining principal will be repaid in a lump sum when due. |
| Bank of Taiwan | 100,400 | 1.3531 | Between June 19, 2018 and June 20, 2023; the first repayment is due on September 20, 2019; principal is to be repaid by 16 equal installments of NT$6,275 thousand every three months. |
| " | 139,715 | 1.3214 | From June 19, 2018 to September 20, 2031; the first repayment was due on December 20, 2018; repayments of NT$2,085 thousand is to be made every three months; the remaining principal will be repaid in a lump sum when due. |
| The Agricultural Bank of Taiwan | 100,000 | 1.1000 | From December 20, 2018 to December 20, 2021, the Group has a revolving facility with a 90-day extension option. |
| Mega International Commercial Bank - Neihu | 76,974 | 1.4800 | From December 7, 2017 to December 7, 2032; the first repayment was due on January 7, 2018; principal is to be repaid by 180 equal installments of NT$458 thousand every month. |
| " | 15,641 | 1.4800 | From December 7, 2017 to December 7, 2032; the first repayment was due on January 7, 2018; principal is to be repaid by 180 equal installments of NT$93 thousand every month. |
| Total | 543,504 | | |
| Less: long-term loans due within one year | (49,597) | | |
| Net | $493,907 | | |

| Creditor | 2017.12.31 | Interest rate (%) | Repayment period and method |
|---|---|---|---|
| Taiwan Cooperative Bank - Hsinchu Science Park Branch | $13,647 | 1.5500 | Between December 30, 2013 and December 30, 2018; the first repayment was due on December 30, 2014; principal is to be repaid by 17 equal installments of NT$3,412 thousand every three months. |
| " | 51,200 | 1.4500 | Between September 18, 2013 and October 31, 2031; the first repayment was due on September 18, 2014; principal is to be repaid by 70 equal installments of NT$914 thousand every three months. |
| " | 10,765 | 1.5500 | Between January 29, 2014 and January 29, 2019; the first repayment was due on January 29, 2015; principal is to be repaid by 17 equal installments of NT$2,153 thousand every three months. |
| " | 56,470 | 1.5500 | Between September 2, 2016 and September 2, 2021; the first repayment |

| | | | |
|---|---|---|---|
| | | | was due on September 2, 2017; principal is to be repaid by 17 equal installments of NT$3,765 thousand every three months. |
| CTBC Bank | $20,000 | 1.2800 | Between October 19, 2017 and October 19, 2022; the first repayment was due on November 19, 2018; repayments of NT$111 thousand is to be made every month; the remaining principal will be repaid in a lump sum when due. |
| Taipei Fubon Commercial Bank | 41,667 | 1.0956 | Between May 31, 2017 and May 31, 2020; the first repayment was due on August 31, 2017; principal is to be repaid by 12 equal installments of NT$4,167 thousand every three months. |
| Mega International Commercial Bank - Neihu | 82,472 | 1.4500 | From December 7, 2017 to December 7, 2032; the first repayment was due on January 7, 2018; principal is to be repaid by 180 equal installments of NT$458 thousand every month. |
| " | 16,758 | 1.4500 | From December 7, 2017 to December 7, 2032; the first repayment was due on January 7, 2018; principal is to be repaid by 180 equal installments of NT$93 thousand every month. |
| Total | 292,979 | | |
| Less: long-term loans due within one year | (64,479) | | |
| Net | $228,500 | | |

The secured loans with Taiwan Cooperative Bank, CTBC Bank, Bank of Taiwan and Mega International Commercial Bank have lands, buildings and machinery and equipment, etc. pledged with first priority entitlement. For more details, please refer to Note 8.

18. Post-employment benefits

Defined contribution plan

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

Pension benefits for employees of the Group's overseas subsidiaries are provided in accordance with the local regulations.

Expenses under the defined contribution plan for 2018 and 2017 are NT$26,870 thousand and NT$24,249 thousand, respectively.

Defined benefits plan

The Corporation's post-employment regulations stipulated in accordance with the "Labor Standards Act" belong to the defined benefits plan. The payout of employees' pension is calculated based on the years of service and approved monthly average wage upon retirement. For service duration of 15 years or less, two base points shall be assigned for every year. Once the duration exceeds 15 years, one base point shall be assigned for each year thereafter. The maximum base points are 45. In accordance with the "Labor Standards Act", the Corporation contributes 2% of total salaries as the pension fund on a monthly basis, which is deposited in the special account of Bank of Taiwan, in the name of the Supervisory Committee of Labor Pension Reserve. Also, the Corporation would assess the balance in the aforementioned labor pension reserve account at the end of each year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to be qualified for retirement next year, the Corporation will make contributions to cover the deficit by next March.

The Ministry of Labor manages assets allocation in accordance with the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund." The investment of funds is conducted through the self-operation and commissioned operation, as well as the adoption of the mid and long-term investment strategy under active and passive management models. In considerations of risks such as market, credit and liquidity, the Ministry of Labor defines the cap for fund risks and control plans to ensure sufficient flexibility without excessive risks in achieving the targeted returns. The minimum return from the utilization of fund shall not be less than the interest rate of a two-year fixed time deposit of local banks. If there is any shortage, upon approvals from the competent authority, supplement can be made from the national treasury. Since the Corporation is not entitled to participate in the operation and management of the fund, it is unable to disclose the classification of planned assets' fair value as per Paragraph 142 of IAS 19. As of December 31, 2018, the Corporation's defined benefits plan has estimated to contribute NT$7,706 thousand in the following year.

For the years ended on December 31, 2017 and December 31, 2016, the Corporation's defined benefits plans are expected to due on 2032, and 2031.

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

| | 2018 | 2017 |
|---|---|---|
| Current service cost | $331 | $324 |
| Net interest of net defined benefit liabilities | 234 | 337 |
| Total | $565 | $661 |

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

| | 2018.12.31 | 2017.12.31 | 2017.1.1 |
|---|---|---|---|
| Present value of defined benefit obligations | $57,045 | $54,629 | $53,371 |
| Fair value of plan assets | (45,444) | (37,773) | (30,888) |
| Net defined benefit liabilities on the book | $11,601 | $16,856 | $22,483 |

Reconciliation of net defined benefit liabilities:

| | Present value of defined benefit obligations | Fair value of plan assets | Net defined benefit liabilities |
|---|---|---|---|
| 106.1.1 | $53,371 | $(30,888) | $22,483 |
| Current service cost | 324 | - | 324 |
| Interest expense (income) | 801 | (464) | 337 |
| Previous service cost and settlement gains or losses | - | - | - |
| Sub-total | 54,496 | (31,352) | 23,144 |
| Remeasurements of defined benefit liabilities/assets: | | | |
| Actuarial gains or losses from demographic assumptions | 148 | - | 148 |
| Actuarial gains or losses from changes in financial assumptions | 810 | - | 810 |
| Experience adjustments | (309) | - | (309) |
| Remeasurements of defined benefit assets | - | 151 | 151 |
| Sub-total | 55,145 | (31,201) | 23,944 |

| | | | |
|---|---|---|---|
| Benefits paid | (516) | 516 | - |
| Employer contributions | - | (7,088) | (7,088) |
| 106.12.31 | 54,629 | (37,773) | 16,856 |
| Current service cost | 331 | - | 331 |
| Interest expense (income) | 759 | (525) | 234 |
| Previous service cost and settlement gains or losses | - | - | - |
| Sub-total | 55,719 | (37,298) | 17,421 |
| Remeasurements of defined benefit liabilities/assets: | | | |
| Actuarial gains or losses from demographic assumptions | 485 | - | 485 |
| Actuarial gains or losses from | | - | |
| changes in financial assumptions | 2,392 | | 2,392 |
| Experience adjustments | (117) | - | (117) |
| Remeasurements of defined benefit | | (874) | |
| assets | - | | (874) |
| Sub-total | 58,479 | (39,172) | 19,307 |
| Benefits paid | (1,434) | 1,434 | - |
| Employer contributions | - | (7,706) | (7,706) |
| 107.12.31 | $57,045 | $45,444 | $11,601 |

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

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Discount rate | 1.05% | 1.39% |
| Expected salary increase rate | 3.00% | 3.00% |

Sensitivity analysis of each significant actuarial assumption:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Increase in defined benefit obligations | Decrease in defined benefit obligations | Increase in defined benefit obligations | Decrease in defined benefit obligations |
| Discount rate increases by 0.5% | $- | $3,507 | $- | $3,583 |
| Discount rate decreases by 0.5% | 3,792 | - | 3,886 | - |
| Expected salary increases by 0.5% | 3,698 | - | 3,804 | - |

| | | | | |
|---|---|---|---|---|
| Expected salary decreases by 0.5% | - | 3,459 | - | 3,545 |

The abovementioned sensitivity analysis is conducted to analyze the possible impact on defined benefit obligations under the assumption that there are reasonable changes to a single actuarial assumption (e.g. discount rate or expected salary) while all other assumptions remain constant. Since some actuarial assumptions are in connection with to each other, it is rare to see changes on a single actuarial assumption in practice. Hence, this analysis has its own limitation.

The method and assumptions of the sensitivity analysis in the current period are the same as the previous period.

19. Equity

(1) Common stock

As of January 1, 2018 and 2017, the Corporation's authorized capital amounted to NT$1,000,000 thousand with issued capital of NT$797,129 thousand and NT$717,469 thousand at a par value of NT$10, dividing into 79,713 thousand shares and 71,747 thousand shares, respectively.

The Board of Directors' meeting on May 2, 2017 resolved to issue 8,000 thousand common stocks for cash capital increase at a par value of NT$10. Shares are to be issued at a premium at NT$48 per share. The base date of the capital increase was set on October 6, 2017 and the changes were approved by and registered with the Hsinchu Science Park Administration, Ministry of Science and Technology on October 19, 2017.

Due to the fact that the Corporation's restricted employee shares did not meet the vesting conditions, the Board of Directors resolved to cancel 22,000 shares, 12,000 shares and 12,000 shares on August 8, 2017, November 7, 2017 and March 20, 2018 with base dates for capital reduction set on August 9, 2017, November 10, 2017 and April 9, 2018, and the registration of changes were completed on August 15, 2017, November 24, 2017 and April 18, 2018, respectively. As of December 31, 2017, the total number of restricted employee shares issued is 530 thousand shares. 518 thousand shares from the Corporation's restricted employee shares expired on July 26, 2018.

The shareholders' meeting on June 12, 2018 resolved to issue restricted employee shares to the employees. A total number of 750 thousand shares will be issued at a par value of NT$10, with issuance price equaled NT$0. Those shares took effect upon approval from the Financial Supervisory Commission as of July 3, 2018. The Board of Directors' meeting on August 7, 2018 resolved to issue 750 thousand restricted employee shares at an issuance price of NT$0. The amount of capital increase was NT$7,500 thousand with base date set on August 7, 2018. The changes were approved by and registered with the Hsinchu Science Park Administration, Ministry of Science and Technology on August 15, 2018.

As of December 31, 2018 and 2017, the Corporation's authorized capital amounted to NT$1,000,000 thousand with issued capital of NT$804,509 thousand and NT$797,129 thousand at a par value of NT$10, dividing into 80,451 thousand shares and 79,713 thousand shares, respectively.

(2) Capital surplus

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Issuance premium | $1,228,634 | $1,193,582 |
| Stock options – convertible corporate bonds | 16,600 | 16,600 |
| Issuance of restricted employee shares | 34,050 | 21,995 |
| Others | 1,252 | 11,434 |
| Total | $1,280,536 | $1,243,611 |

According to laws, capital surplus shall not be used except for making good the deficit of the Corporation. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the Corporation as stock dividends up to a certain percentage of paid-in capital. The said capital surplus could also be distributed in the form of cash dividends to its shareholders in proportion to the number of shares being held by each of them.

(3) Earnings distribution and dividend policy

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

A. Payment of all taxes and dues
B. Offset deficits
C. Appropriate 10% to be the statutory surplus reserve

D. Special earnings reserve is recognized or reversed in accordance with laws and regulations or regulatory authorities.

E. The Board of Directors shall draft an earning distribution proposal according to the dividend policy, and reported it to the shareholders' meeting.

The Corporation's dividend policy shall consider the Corporation's current and future investment environment, capital demands, domestic and foreign competition situations and capital budgets, in order to safeguard the shareholders' interests and find a balance between dividends and the Corporation's long-term financial plan. On an annual basis, the Board of Directors will formulate a distribution plan, and report it to the shareholders' meeting. Dividends distributable to shareholders shall be 50%~100% of current year's distributable earnings, among which, at least 50% shall be in the form of cash.

According to the Company Act, statutory surplus reserve shall be appropriated until its balance equals total capital. The statutory surplus reserve may be used to offset deficit. When the Corporation has no deficit, statutory surplus reserve in excess of 25% of paid-in capital may be distributed in the form of stock or cash dividends to its shareholders in proportion to the number of shares being held by each of them.

After adopting IFRS, the Corporation complies with FSC's Order No. Financial-Supervisory-Securities-Corporate-1010012865 issued on April 6, 2012: upon the first-time adoption of IFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) that the Corporation elects to transfer to retained earnings by application of the exemption under IFRS 1, "First-time Adoption of IFRS", the Corporation shall set aside an equal amount of special earnings reserve. Following a company's adoption of the IFRS for the preparation of its financial reports, when distributing distributable earnings, if the Corporation has already set aside special earnings reserve according to the requirements in the preceding point, it shall set aside supplemental special earnings reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

However, as the Corporation's retained earnings from the first-time adoption of IFRS was a negative number, special earnings reserve did not have to be appropriated. In addition, as the Corporation did not use, dispose or reclassify related assets in 2018 and 2017, there is no reversal of special earnings reserve to undistributed earnings.

Details of the 2018 and 2017 earnings appropriation and distribution and dividends per share as approved by the Board of Directors' and the shareholders' meetings on March 18, 2019 and June 20, 2018, respectively, are as follows:

| | Appropriation and Distribution of Earnings | | Dividend per share (NTD) | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Statutory surplus reserve | $12,755 | $13,026 | | |
| Special earnings reserve | 11,850 | 16,035 | | |
| Cash dividend of common stocks | 101,063 | 100,403 | $1.256 | $1.260 |
| Total | $125,668 | $129,464 | | |

Please refer to Note 6(24) for further details on the estimation and recognition foundation of employees' compensation and remuneration to directors and supervisors.

(4) Non-controlling interests

| | 2018 | 2017 |
|---|---|---|
| Beginning balance | $13,209 | $28,384 |
| Net loss attributable to non-controlling interests | (25,062) | (19,325) |
| Other comprehensive income attributable to non-controlling interests: | | |
| Exchange difference from translation of foreign operations' financial statements | 324 | (389) |
| New shares of subsidiaries not subscribed in proportion of shares held | (1,903) | 4,539 |
| Capital increase of subsidiaries | 31,972 | - |
| Ending balance | $18,540 | $13,209 |

20. Share-based payment plans

Employees of the Group are entitled to share-based payment as part of their compensation. Services rendered by employees are considerations for the equity instruments granted. These transactions are accounted for as equity-settled share-based payment transactions.

(1) Restricted employee share plans of the Group's parent company

The Corporation's shareholders' meeting on June 23, 2015 resolved to issue restricted employee shares of up to 600 thousand common stocks at NT$0. The stock price at the grant date stood at NT$51.5. The restricted employee shares issued by the Corporation shall not be transferred within the three-year vesting period, however, the holders are still entitled to dividend distribution. Due to the fact that the Corporation's restricted employee shares met the vesting conditions on July 30, 2017, the Board of Directors resolved to cancel 8,000 shares, 22,000 shares, 12,000 shares and 12,000 shares on December 23, 2015, August 8, 2017, November 7, 2017 and March 20, 2018, respectively. As of December 31, 2017, the total number of restricted employee shares issued is 530,000 shares. 518 thousand shares from the Corporation's restricted employee shares expired on July 26, 2018.

The Corporation's shareholders' meeting on June 12, 2018 resolved to issue restricted employee shares of up to 750 thousand common stocks at NT$0. The stock price at the grant date stood at NT$55.4. The restricted employee shares issued by the Corporation shall not be transferred within the three-year vesting period, however, the holders are still entitled to dividend distribution. As the Corporation's restricted employee shares did not meet the vesting conditions, the total number of restricted employee shares issued is 750,000 shares as of December 31, 2018.

After the issuance of restricted employee shares, they shall be transferred immediately to a trust, and prior to the fulfillment of the vesting conditions, the employee shall not request the trustee to return the restricted employee shares for any reason or in any manner. Moreover, during the restricted employee shares' trust period, the Corporation is delegated to act on behalf of the employees in dealing with the stock trust agency concerning the negotiation, signing, amendment, extension, cancellation, termination of the trust contract (inclusive but not limited to), as well as the delivery, use and disposal of the trust property. When the employee fails to meet the vesting conditions, the Corporation is entitled by law to retrieve the restricted employee shares and cancel them.

(2) The Group's parent company reserves an employee subscription plan within cash capital increase according to the Company Act

The Board of Directors' meeting on May 2, 2017 resolved to issue 8,000 thousand common stocks for cash capital increase at a par value of NT$10. Shares are to be issued at a premium at NT$48 per share. According to Paragraph 1, Article 267 of the Company Act, the Corporation has reserved 15% of new shares, i.e. a total of 1,200 thousand shares, for employees' subscription. According to IFRS 2 "Share-based Payment", the compensation cost of NT$13,555 thousand is recognized at the fair value of equity product as of the grant date.

(3) The Group's subsidiaries reserve the employee subscription plan for cash capital increase according to the Company Act

The Board of Directors' meeting on October 31, 2018 resolved to issue 1,000 thousand common stocks for cash capital increase at a par value of NT$10. Shares are to be issued at a premium at NT$40 per share. According to Paragraph 1, Article 267 of the Company Act, the Corporation has reserved 10% of new shares, i.e. a total of 100 thousand shares, for employees' subscription. According to IFRS 2 "Share-based Payment", the compensation cost of NT$1,470 thousand is recognized at the fair value of equity product as of the grant date.

(4) The expense recognized for employee share-based payment plans is shown in the following table:

| | 2018 | 2017 |
|---|---|---|
| Plan of restricted employee shares | $10,115 | $8,262 |
| Employee subscription plan reserved for cash capital increase | 1,470 | 13,555 |
| Total | $11,585 | $21,817 |

21. Operating Revenue

| | 2018 (Note) | 2017 |
|---|---|---|
| Sale of goods | $2,330,991 | $1,972,213 |
| Other operating revenues | 1,256 | 379 |
| Total | $2,332,247 | $1,972,592 |

Note: The Group has adopted IFRS 15 from January 1, 2018 to deal with revenue from customer contracts and selected to recognize the cumulative effect of initial adoption on January 1, 2018.

The Group has adopted IFRS 15 from January 1, 2018 to deal with revenue from customer contracts. Information on revenue from customer contracts in 2018 is as follows:

Revenue breakdown

Revenue from the sale of goods was generated by a single segment and recognized at a point of time.

Contract balance

Contract liabilities - current

| | Beginning balance | Ending balance | Difference |
|---|---|---|---|
| Sales of goods | $12,174 | $12,985 | $811 |

The Group's contract liabilities increased by NT$811 thousand in 2018.

22. Expected credit loss (gain)

| | 2018 | 2017 |
|---|---|---|
| Operating expenses - Expected credit loss (gain) | | |
| Notes receivable | $- | (Note) |
| Accounts receivable | (3,099) | (Note) |
| Total | $(3,099) | (Note) |

Note: The Group has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

For information on credit risk, please refer to Note 12.

Loss allowance of the Group's receivables (including notes and accounts receivable) is measured at an amount equal to lifetime expected credit losses. Explanations on loss allowance as of December 31, 2018 are as follows:

Loss allowance is measured by taking into account the credit ratings of the counterparties, the geographical regions and the industry, and adopts the provision matrix. Relevant information is as follows:

| | Not past due | Number of days overdue | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | (Note) | <=30 days | 31-60 days | 61-90 days | 91-120 days | 121-150 days | 151-180 days | Over 181 days | Total |
| Gross carrying amount | $615,111 | $28,540 | $15,981 | $1,047 | $600 | $162 | $41 | $7,311 | $668,793 |
| Loss ratio | 0% | 0% | 0% | 0% | 0% | 5% | 10% | 100% | |
| Lifetime expected credit losses | - | - | - | - | - | 8 | 4 | 7,311 | 7,323 |
| Total | $615,111 | $28,540 | $15,981 | $1,047 | $600 | $154 | $37 | $- | $661,470 |
| Carrying amount | | | | | | | | | $661,470 |

Note: None of the Group's notes receivable is past due.

The movements in the Group's loss allowance for notes and accounts receivables in 2018 are as follows:

| | Notes receivable | Accounts receivable |
|---|---|---|
| Beginning balance (in accordance with IAS 39) | $- | $10,453 |
| Addition (reversal) for the current period | - | (3,099) |
| Write off | - | (39) |
| Exchange differences | - | 8 |
| Ending balance | $- | $7,323 |

23. Operating lease

Operating lease commitments - the Group as a lessee

The Group has entered into commercial leases on plant, office and parking space. These leases have an average life of three to thirty years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as of December 31, 2018 and 2017 are as follows:

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Not later than one year | $23,525 | $16,903 |
| Later than one year and not later than five years | 57,998 | 35,731 |
| Later than five years | 163,396 | 64,640 |
| Total | $244,919 | $117,274 |

24. Summary statement of employee benefits, depreciation and amortization expense by function:

| Function / Type | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Operating Cost | Operating Expenses | Total | Operating Cost | Operating Expenses | Total |
| Employee benefits expense | | | | | | |
| Salaries expense | $243,721 | $389,508 | $633,229 | $201,040 | $344,658 | $545,698 |
| Labor and health insurance premiums | 23,484 | 33,508 | 56,992 | 19,306 | 25,629 | 44,935 |
| Pension expense | 11,678 | 15,757 | 27,435 | 9,498 | 15,412 | 24,910 |
| Other employee | 9,787 | 6,013 | 15,800 | 8,084 | 4,985 | 13,069 |

| | | | | | | |
|---|---|---|---|---|---|---|
| benefits expense | | | | | | |
| Depreciation expenses | 68,971 | 128,940 | 197,911 | 51,283 | 84,181 | 135,464 |
| Amortization expense | - | 16,871 | 16,871 | - | 14,928 | 14,928 |

The Corporation's Articles of Incorporation provide that if there is profit in the year, 12 percent of profit shall be allocated for employee compensation, and no more than 3 percent shall be allocated for remuneration of directors and supervisors. However, the Corporation's accumulated losses shall first be offset. Abovementioned employees' compensation shall be distributed in cash and undertaken by a resolution adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors and a report of such distribution shall be submitted to the shareholders' meeting. Information relating to compensation to employees and remuneration to directors and supervisors approved by the Board of Directors can be inquired at the Market Observation Post System, TWSE.

Based on the profits of 2018, the Corporation allocated 12 and 3 percent of the profits as compensation to employees and remuneration to directors and supervisors with amount of NT$17,025 thousand and NT$4,256 thousand recognized under salary expense, respectively. The Corporation's Board of Directors resolved on March 18, 2019 to distribute NT$17,025 thousand and NT$4,256 thousand in cash as compensation to employees and remuneration to directors and supervisors, respectively.

In 2017, the actual amounts of compensation to employees and remuneration to directors and supervisors distributed were NT$24,796 thousand and NT$6,199 thousand, respectively. There was no material difference between the amount paid and the amount recognized as expenses in the 2017 financial reports.

25. Non-operating income and expenses

(1) Other income

| | 2018 | 2017 |
|---|---|---|
| Interest Income | $2,996 | $2,426 |
| Other income - others | 42,978 | 38,088 |
| Total | $45,974 | $40,514 |

(2) Other gains and losses

| | 2018 | 2017 |
|---|---|---|

| | | |
|---|---|---|
| Gain (loss) on disposal of property, plant and equipment | $(734) | $(458) |
| Gain (loss) on disposal of intangible assets | - | 724 |
| Gain (loss) on financial assets at FVTPL | 5,277 | 719 |
| Foreign exchange gain (loss), net | 4,796 | (29,542) |
| Other expenses | (168) | (72) |
| Total | $9,171 | $(28,629) |

(3) Finance costs

| | 2018 | 2017 |
|---|---|---|
| Interest on bank loans | $(21,292) | $(10,969) |
| Interest on bonds payable | (5,510) | (2,273) |
| Total | $(26,802) | $(13,242) |

26. Components of other comprehensive income

Components of other comprehensive income for the year ended December 31, 2018 are as follows:

| | Arising during the period | Reclassification adjustment | Other comprehensive income | Income tax benefit (expense) | After-tax amount |
|---|---|---|---|---|---|
| Items not reclassified to profit or loss: | | | | | |
| Remeasurement of defined benefit plan | $(1,886) | $- | $(1,886) | $- | $(1,886) |
| Unrealized valuation gain (loss) on investments in equity instruments at FVTOCI | (2,819) | - | (2,819) | - | (2,819) |
| Shares of other comprehensive income of associates and joint ventures accounted for using the equity method | (434) | - | (434) | - | (434) |
| Items that might be reclassified to profit or loss: | | | | | |
| Exchange difference from translation of foreign operations' financial statements | 630 | - | 630 | - | 630 |
| Shares of other comprehensive income of associates and joint ventures accounted for using the equity method | (8,903) | - | (8,903) | - | (8,903) |
| Total | $(13,412) | $- | $(13,412) | $- | $(13,412) |

Components of other comprehensive income for the year ended December 31, 2017 are as follows:

| | Arising during the | Reclassification adjustment | Other comprehensive income | Income tax benefit (expense) | After-tax amount |
|---|---|---|---|---|---|

| | period | | | | |
|---|---|---|---|---|---|
| Items not reclassified to profit or loss: | | | | | |
| Remeasurement of defined benefit plan | $(800) | $- | $(800) | $- | $(800) |
| Items that might be reclassified to profit or loss: | | | | | |
| Exchange difference from translation of foreign operations' financial statements | (11,442) | - | (11,442) | - | (11,442) |
| Shares of other comprehensive income of associates and joint ventures accounted for using the equity method | (4,982) | - | (4,982) | - | (4,982) |
| Total | $(17,224) | $- | $(17,224) | $- | $(17,224) |

27. Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Corporation's corporate income tax rate for the year ended December 31, 2018 was adjusted from 17% to 20%. The tax rate applicable to undistributed earnings for the year ended December 31, 2018 was reduced from 10% to 5%.

The major components of income tax expense (benefit) for the years ended December 31, 2018 and 2017 are as follows:

Income tax expense recognized in profit or loss

| | 2018 | 2017 |
|---|---|---|
| Current income tax expense (benefit): | | |
| Current income tax expense | $28,871 | $61,142 |
| Adjustments on current income tax of prior periods | (4,775) | - |
| Deferred income tax expense (benefit): | | |
| Deferred income tax expense (benefit) relating to origination and reversal of temporary differences | (7,042) | (6,419) |
| Deferred income tax relating to changes in tax rates or new taxes | (12,097) | - |
| Income tax expense (benefit) | $4,957 | $54,723 |

Income tax recognized in other comprehensive income

| | 2018 | 2017 |
|---|---|---|
| Deferred income tax expense (benefit): | | |
| Remeasurement of defined benefit plan | $- | $- |
| Unrealized valuation gain (loss) on investments in equity instruments at FVTOCI | - | - |
| Exchange difference from translation of foreign operations' financial statements | - | - |
| Shares of other comprehensive income of | - | - |

| | | |
|---|---|---|
| subsidiaries, associates and joint ventures accounted for using the equity method | | |
| Income tax relating to components of other comprehensive income | $- | $- |

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

| | 2018 | 2017 |
|---|---|---|
| Profit before tax from continuing operations | $107,449 | $165,662 |
| Tax at the domestic tax rates applicable of profits in the country of main operation | $36,965 | $40,505 |
| Tax effect of revenues exempt from taxation | (8,440) | (7,227) |
| Tax effect of expenses not deductible for tax purposes | 8,723 | 9,712 |
| Tax effect of deferred income tax assets/liabilities | (15,655) | 11,549 |
| Additional 10% income tax on unappropriated earnings | 236 | 184 |
| Deferred income tax relating to changes in tax rates or new taxes | (12,097) | - |
| Adjustments on current income tax of prior periods | (4,775) | - |
| Total income tax expense (benefit) recognized in profit or loss | $(4,957) | $54,723 |

Balance of deferred income tax assets (liabilities) related to the following items:

2018

| | Beginning balance | Recognized in profit or loss | Recognized in other comprehensive income | Acquired through business combination | Exchange differences | Ending balance |
|---|---|---|---|---|---|---|
| Temporary differences | | | | | | |
| Unrealized transactions between Group entities | $40,580 | $17,336 | $- | $- | $- | $57,916 |
| Unrealized exchange gain (loss) - parent company | 86 | 571 | - | - | - | 657 |
| Unrealized exchange gain (loss) - subsidiaries | (90) | 75 | - | - | - | (15) |
| Valuation on financial assets at FVTPL | (7) | 7 | - | - | - | - |
| Long-term deferred income | 17,895 | (1,937) | - | - | - | 15,958 |
| Excess of allowance for bad loans | 10 | (2) | - | - | - | 8 |
| Provision for inventory valuation loss | 9,864 | 937 | - | - | - | 10,801 |
| Unrealized bonus for unused compensated absences | 211 | 34 | - | - | - | 245 |
| Tax differentials in depreciation expenses | (1,517) | 453 | - | - | (42) | (1,106) |
| Fair value adjustment resulting from business combination | (17,874) | 1,665 | - | - | - | (16,209) |
| Deferred income tax (expense)/benefit | | $19,139 | $- | $- | $(42) | |

| | Beginning balance | | | | | Ending balance |
|---|---|---|---|---|---|---|
| Deferred income tax assets/(liabilities), net | $49,158 | | | | | $68,225 |
| Information on the balance sheet is shown as follows: | | | | | | |
| Deferred income tax assets | $68,646 | | | | | $85,585 |
| Deferred income tax liabilities | $(19,488) | | | | | $(17,330) |

2017

| | Beginning balance | Recognized in profit or loss | Recognized in other comprehensive income | Acquired through business combination | Exchange differences | Ending balance |
|---|---|---|---|---|---|---|
| Temporary differences | | | | | | |
| Unrealized transactions between Group entities | $28,415 | $12,165 | $- | $- | $- | $40,580 |
| Unrealized exchange gain (loss) - parent company | 842 | (756) | - | - | - | 86 |
| Unrealized exchange gain (loss) - subsidiaries | - | (51) | - | (39) | - | (90) |
| Valuation on financial assets at FVTPL | - | (7) | - | - | - | (7) |
| Long-term deferred income | 22,226 | (4,331) | - | - | - | 17,895 |
| Excess of allowance for bad loans | - | - | - | 10 | - | 10 |
| Provision for inventory valuation loss | - | 154 | - | 9,710 | - | 9,864 |
| Long-term investments accounted for using the equity method | - | (1,418) | - | 1,418 | - | - |
| Unrealized bonus for unused compensated absences | - | 1 | - | 210 | - | 211 |
| Tax differentials in depreciation expenses | - | (1,581) | - | - | 64 | (1,517) |
| Fair value adjustment resulting from business combination | - | 2,243 | - | (20,117) | - | (17,874) |
| Deferred income tax (expense)/benefit | | $6,419 | $- | $(8,808) | $64 | |
| Deferred income tax assets/(liabilities), net | $51,483 | | | | | $49,158 |
| Information on the balance sheet is shown as follows: | | | | | | |
| Deferred income tax assets | $51,483 | | | | | $68,646 |
| Deferred income tax liabilities | $- | | | | | $(19,488) |

Unrecognized deferred income tax assets

The Group's unrecognized deferred income tax assets amounted to NT$49,179 thousand and NT$68,083 thousand for the years ended December 31, 2018 and 2017, respectively.

The table below shows the income tax approval status of entities within the Group:

| | 2018.12.31 | |
|---|---|---|
| | Business income tax approval status | Remark |
| United Orthopedic Corporation (the Corporation) | Approved up to 2016 | - |
| A-Spine Asia Co., Ltd. (subsidiary) | Approved up to 2016 | - |
| Pauline Medical Co., Ltd. (2nd-tier subsidiary) | Approved up to 2016 | - |

28. Earnings per share

Basic earnings per share is calculated by dividing the net income attributable to common stock holders of the parent company by weighted average number of common stocks outstanding of the period.

Diluted earnings per share is calculated by dividing the net income attributable to common stock holders of the parent company (after adjusted for interests on convertible bonds) by weighted average number of common stocks outstanding of the period, plus weighted average number of common stocks to be issued when all dilutive potential common stocks are converted into common stocks.

| | 2018 | 2017 |
|---|---|---|
| (1) Basic earnings per share | | |
| Net income attributable to common stock holders of the parent company (NT$ thousands) | $127,554 | $130,264 |
| Weighted average number of common stocks for basic earnings per share (thousands stock) | 79,408 | 73,090 |
| Basic earnings per share (NT$) | $1.61 | $1.78 |
| | | |
| (2) Diluted earnings per share | | |
| Net income attributable to common stock holders of the parent company (NT$ thousands) | $127,554 | $130,264 |
| Interest of convertible bonds (NT$ thousands) | 4,408 | 1,886 |
| Net income attributable to common stock holders of the parent company after dilution effect adjustment (NT$ thousands) | $131,962 | $132,150 |
| | | |
| Weighted average number of common stocks for basic earnings per share (thousands stock) | 79,408 | 73,090 |
| Dilution effect: | | |
| Convertible bonds (thousands stock) | 5,333 | 2,089 |
| Restricted employee shares (thousands stock) | 331 | 477 |
| Weighted average number of common stocks after dilution effect adjustment (thousands stock) | 85,072 | 75,656 |
| Diluted earnings per share (NT$) | $1.55 | $1.75 |

After the reporting period and before the publication of the financial statements, there are no other transactions which would make significant changes to the numbers of common stocks outstanding or potential common stocks at the end of period.

29. Business merger

Acquisition of A-Spine Asia Co., Ltd. (A-Spine Asia)

On March 8 and 31, 2017, a total of NT$613,440 thousand was paid in cash for the acquisition of A-Spine Asia's 100-percent outstanding shares and gained full control of the Corporation. A-Spine Asia is an unlisted company founded in Taiwan, specializing in production of artificial spine. For diversification, the Group's acquisition of A-Spine Asia is expected to accelerate the development of spine products in Taiwan and international markets.

The fair value of consideration paid, assets acquired and liabilities assumed for the acquisition of above-mentioned A-Spine Asia and its subsidiaries on the acquisition date is as follows:

| | Fair value on the acquisition date |
|---|---|
| Cash and cash equivalents | $86,557 |
| Receivables | 77,077 |
| Inventories | 116,883 |
| Property and equipment | 7,594 |
| Intangible assets (except for brand and goodwill) | 885 |
| Other assets | 42,729 |
| Payables | (82,866) |
| Advance receipt | (166) |
| Other liabilities | (36,084) |
| Fair value of identifiable net assets | $212,609 |

The amount of A-Spine Asia's goodwill is as follows:

| | |
|---|---|
| Cash consideration | $613,440 |
| Less: Fair value of identifiable net assets | (212,609) |
| Less: Brand | (107,940) |
| Goodwill | $292,891 |

| | |
|---|---|
| Cash flows of acquisition | |
| Net cash obtained from subsidiaries | $86,557 |
| Cash payment | (613,440) |
| Net cash outflows | $(526,883) |

The goodwill of NT$292,891 thousand includes the expected synergies resulting from the acquisition and the value of the customer list which cannot be individually recognized. Due to the terms of the acquisition contract, the value of customer list is not separable and therefore does not meet the conditions for intangible asset recognition in IAS 38 "Intangible Assets." The aforesaid goodwill is expected to be fully tax deductible.

A-Spine Asia is an unlisted company and therefore its market information cannot be obtained. The fair value is estimated based on:

(1) Assuming a discount rate of 13.87%;
(2) The risk-free rate of return is 1.09%;
(3) The long-term economic growth rate is 2.5%; and
(4) The risk premium rate is 9.17%.

From the acquisition date (April 1, 2017) to December 31, 2017, revenue contributed by A-Spine Asia to the Group came to NT$322,243 thousand with a net income from continuing business units of NT$47,180 thousand. If the merger takes place at the beginning of the year, the Group's revenue from continuing business units will be NT$412,089 thousand, and the net income from continuing business units will be NT$59,431 thousand.

30. Changes in ownership equity of subsidiaries

New shares of subsidiaries not subscribed in proportion of shares held

UOC Europe Holding SA issued new shares on October 2, 2017. As a result, the Group's ownership in this subsidiary increased to 88%. Cash acquired by the Group from capital increase was CHF 2,250 thousand (NT$70,669 thousand), and the carrying amount of UOC Europe Holding SA's net assets (originally acquired without goodwill) was CHF 3,758 thousand (NT$117,784 thousand). Adjustments relevant to the increase of the Group's interest in UOC Europe Holding SA is as follows:

| | 2017 |
|---|---|
| Cash capital increase acquired by the subsidiary | $- |
| Increase in non-controlling interests | 2,355 |
| Differences in paid-in capital recognized in equity | $2,355 |

UOC Europe Holding SA issued new shares on April 2, 2018. As a result, the Group's ownership in this subsidiary increased to 92%. Cash acquired by the Group from capital increase was CHF 2,250 thousand (NT$68,640 thousand), and the carrying amount of UOC Europe Holding SA's net assets (originally acquired without goodwill) was CHF 5,742 thousand (NT$175,134 thousand). Adjustments relevant to the increase of the Group's interest in UOC Europe Holding SA is as follows:

| | 2018 |
|---|---|
| Cash capital increase acquired by the subsidiary | $- |
| Increase in non-controlling interests | 1,232 |
| Differences in paid-in capital recognized in equity | $1,232 |

UOC Europe Holding SA issued new shares on July 2, 2018. As a result, the Group's ownership in this subsidiary increased to 96%. Cash acquired by the Group from capital increase was CHF 5,500 thousand (NT$168,701 thousand), and the carrying amount of UOC Europe Holding SA's net assets (originally acquired without goodwill) was CHF 10,810 thousand (NT$331,157 thousand). Adjustments relevant to the increase of the Group's interest in UOC Europe Holding SA is as follows:

| | 2018 |
|---|---|
| Cash capital increase acquired by the subsidiary | $- |
| Increase in non-controlling interests | 250 |
| Differences in paid-in capital recognized in equity | $250 |

United Biomech Japan issued new shares on July 3, 2017. As a result, the Group's ownership increased to 59%. Cash acquired by the Group from capital increase was JPY 30,000 thousand (NT$8,064 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY 81,656 thousand (NT$22,094 thousand). Adjustments relevant to the increase of the Group's interest in United Biomech Japan is as follows:

| | 2017 |
|---|---|
| Cash capital increase acquired by the subsidiary | $- |
| Increase in non-controlling interests | 2,184 |
| Differences in paid-in capital recognized in equity | $2,184 |

United Biomech Japan issued new shares on January 2, 2018. As a result, the Group's ownership increased to 68%. Cash acquired by the Group from capital increase was JPY 46,500 thousand (NT$12,332 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY 53,969 thousand (NT$14,305 thousand). Adjustments relevant to the increase of the Group's interest in United Biomech Japan is as follows:

| | 2018 |
|---|---|
| Cash capital increase acquired by the subsidiary | $- |
| Increase in non-controlling interests | 3,768 |
| Differences in paid-in capital recognized in equity | $3,768 |

United Biomech Japan issued new shares on February 1, 2018. As the Group did not take part in the subscription, its ownership decreased to 51%. Cash acquired by the Group from capital increase was JPY 73,500 thousand (NT$19,628 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY116,550 thousand (NT$31,166 thousand). Adjustments relevant to the decrease of the Group's interest in United Biomech Japan is as follows:

| | 2018 |
|---|---|
| Cash capital increase acquired by the subsidiary | $(19,628) |
| Increase in non-controlling interests | 11,579 |
| Differences in paid-in capital recognized in equity | $(8,049) |

United Biomech Japan issued new shares on September 3, 2018. Cash acquired by the Group from capital increase was JPY 25,000 thousand (NT$6,855 thousand). The Group's ownership did not change. The increase in non-controlling interests was NT$6,789 thousand.

United Biomech Japan issued new shares on December 10, 2018. As a result, the Group's ownership increased to 53%. Cash acquired by the Group from capital increase was JPY 25,500 thousand (NT$6,951 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY 66,427 thousand (NT$18,097 thousand). Adjustments relevant to the increase of the Group's interest in United Biomech Japan is as follows:

| | 2018 |
|---|---|
| Cash capital increase acquired by the subsidiary | $(2,604) |
| Increase in non-controlling interests | 4,320 |
| Differences in paid-in capital recognized in equity | $1,716 |

A-Spine Asia Co., Ltd. issued new shares on November 16, 2018. As a result, the Group's ownership decreased to 99.4%. Cash acquired by the Group from capital increase was NT$37,040 thousand, and the carrying amount of A-Spine Asia's net assets (originally acquired with intangible assets – brand, but without goodwill) was NT$356,761 thousand). Adjustments relevant to the decrease of the Group's interest in A-Spine Asia is as follows:

| | 2018 |
|---|---|
| Cash capital increase acquired by the subsidiary | $(2,960) |
| Increase in non-controlling interests | 2,140 |
| Differences in paid-in capital recognized in equity | $(820) |

VII. Related-party transactions

Related-parties who have transactions with the Group during the financial reporting period are as follows:

Name of related-party and relationship

| Name of related party | Relationship with the Group |
|---|---|
| Shinva United Orthopedic Corporation | Affiliate of the Corporation |
| United Medical Co., Ltd. | Affiliate of the Corporation |
| United Medical Instrument Co., Ltd. | Affiliate of the Corporation |
| United Medical Technology (ShangHai) Co., Ltd. | Affiliate of the Corporation |
| Changgu Biotech Corporation | The Corporation is a shareholder of the Corporation |
| Prime Medica Co., Ltd. | The Corporation's subsidiary is its affiliate |
| Paonan Biotech Co., Ltd. | The Corporation's subsidiary is its affiliate |

| | |
|---|---|
| Peng, Yu-Hsin | Deputy General Manager of the Corporation |

Major transactions with related parties

1. Sales

| | 2018 | 2017 |
|---|---|---|
| Affiliate of the Group | | |
| United Medical Instrument Co., Ltd. | $416,002 | $339,519 |
| Others | 60,561 | 41,459 |
| Total | $476,563 | $380,978 |

The sales price offered by the Group to related parties is marked up at the cost, and the collection term in principle has no significant differences from ones to general exporting customers. However, the Group may offer a longer credit period in consideration of the related parties' funding conditions.

2. Purchase

| | 2018 | 2017 |
|---|---|---|
| Affiliate of the Group | | |
| United Medical Co., Ltd. | $70,797 | $84,105 |
| Others | 31,152 | 2,715 |
| Total | $101,949 | $86,820 |

The purchase price offered by the Group to related parties is marked up at the cost, and the payment term is to pay on a monthly basis.

3. Accounts receivable - related parties

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Affiliate of the Group | | |
| United Medical Instrument Co., Ltd. | $187,442 | $90,934 |
| Others | 24,254 | 15,067 |
| Total | $211,696 | $106,001 |

4. Accounts payable - related parties

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| The Corporation's subsidiary is its affiliate | | |
| Paonan Biotech Co., Ltd. | $32,454 | $2,686 |

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| United Medical Co., Ltd. | 1,364 | 17,047 |
| Total | $33,818 | $19,733 |

5. Other receivables - related parties

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Affiliate of the Group | | |
| Shinva United Orthopedic Corporation | $- | $106,059 |

6. Other payables - related parties

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| The Corporation's subsidiary is its affiliate | | |
| Paonan Biotech Co., Ltd. | $1,615 | $- |
| Others | 245 | - |
| Total | $1,860 | $- |

7. Property transactions

The Group sold assets to the following related parties in 2018:

| | Property name | Proceeds from disposal | Loss on disposal |
|---|---|---|---|
| Key management | Transportation equipment | $83 | $- |

As of December 31, 2018, the Corporation has collected proceeds of NT$83 thousand.

8. Remunerations for the Group's key management

| | 2018 | 2017 |
|---|---|---|
| Short-term employee benefits | $24,105 | $25,668 |
| Share-based payments | 2,805 | 1,803 |
| Total | $26,910 | $27,471 |

VIII. Pledged assets

The following table lists assets of the Group pledged as collaterals:

| Item | Carrying amount 107.12.31 | 106.12.31 | Secured liabilities |
|---|---|---|---|
| Accounts receivable | $- | $52,100 | Financing |
| Financial assets measured at amortized cost - non-current | 6,714 | (Note) | Performance bond, comprehensive credit loan, import duty guarantee |
| Bond instrument investments with no active market - non-current | (Note) | 6,705 | " |
| Property, plant and equipment - land and building | 522,119 | 308,288 | " |
| Property, plant and equipment - machinery and equipment | 273,291 | 165,996 | " |
| Total | $802,124 | $533,089 | |

Note: The Group has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

IX. Commitments and contingencies

Material contracts entered by the Group for the acquisition of fixed assets are as follows:

December 31, 2018

None.

December 31, 2017

| Item | Total Contract Amount | Amount Paid | Amount Outstanding |
|---|---|---|---|
| Plants and auxiliary equipment (phase-3 plant) | $362,177 | $331,093 | $31,084 |

X. Loss due to major disasters

None.

XI. Significant subsequent events

None.

XII. Others

1. Categories of financial instruments

Financial assets

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Financial assets at FVTPL: | | |
| Mandatorily measured at FVTPL | $40 | $80 |
| | | |
| Financial assets at FVTOCI | 3,483 | (Note 1) |
| Available-for-sale financial assets | (Note 2) | 4,810 |
| Financial assets measured at amortized cost: | | |
| Cash and cash equivalents (exclude cash on hand) | 527,645 | (Note 1) |
| Financial assets measured at amortized cost: | 6,714 | (Note 1) |
| Notes receivable | 17,935 | (Note 1) |
| Accounts receivables (including related parties) | 643,535 | (Note 1) |
| Other receivables (including related parties) | 21,406 | (Note 1) |
| Sub-total | 1,217,235 | (Note 1) |
| Loans and receivables: | | |
| Cash and cash equivalents (exclude cash on hand) | (Note 1) | 401,103 |
| Bond investments with no active market | (Note 1) | 6,705 |
| Notes receivable | (Note 1) | 16,754 |
| Accounts receivables (including related parties) | (Note 1) | 473,438 |
| Other receivables (including related parties) | (Note 1) | 121,543 |
| Sub-total | (Note 1) | 1,019,543 |
| Total | $1,220,758 | $1,024,433 |

Financial liabilities

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Financial liabilities measured at amortized cost: | | |
| Short-term loans | $973,982 | $690,048 |
| Short-term notes and bills payable | 49,984 | - |
| Receivables (including related parties) | 491,398 | 491,019 |
| Bonds payable (including bonds due within one year) | 391,223 | 385,713 |
| Long-term loans (including loans due within one year) | 543,504 | 292,979 |
| Total | $2,450,091 | $1,859,759 |

Note:

1. The Group has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

2. Financial assets measured at cost are included in the numbers as of December 31, 2017.

2. Financial risk management objectives and policies

The Group's principal financial risk management objective is to manage the market risk, credit risk, and liquidity risk related to its operating activates. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for the aforementioned financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Group shall comply with its financial risk management policies while managing its financial activities.

3. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market risks comprise currency risk, interest rate risk, and other price risk (such as equity instruments).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable. There are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign operations.

The Group has certain foreign currency receivables denominated in the same foreign currency as certain foreign currency payables; therefore, natural hedge is achieved. The Group also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as the said nature hedge and forward contracts do not qualify for hedge accounting criteria. Furthermore, as net investments in foreign operations are for strategic purposes, they are not hedged by the Group.

The foreign currency sensitivity analysis of the impact of possible changes in foreign exchange rates on the Group's profit and equity is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rate of U.S. dollars. The sensitivity analysis is as follows:

When NT dollar appreciates/depreciates against US dollars by 1%, the Group's profit or loss for the years ended December 31, 2018 and 2017 will increase/decrease by NT$2,034 thousand and NT$2,290 thousand, respectively.

When NT dollar appreciates/depreciates against RMB by 1%, the Group's profit or loss for the years ended December 31, 2018 and 2017 will increase/decrease by NT$3,116 thousand and NT$2,228 thousand, respectively.

Interest rate risks

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the interest rate risk relates primarily to its investments with variable interest rates and bank loans with fixed and variable interest rates.

The Group manages its interest rate risk by applying a balanced portfolio of fixed and variable interest rates and entering into interest rate swaps. As those transactions do not qualify for hedge accounting, hedge account is not adopted.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period, including investments and loans with variable interest rates and interest rate swaps. During a reporting period, when interest rate increases/decreases by 10 basis points, the Group's profit or loss for the years ended December 31, 2018 and 2017 will decrease/increase by NT$1,033 thousand and NT$577 thousand, respectively.

Equity price risk

The fair value of unlisted equity securities held by the Group are susceptible to equity price risk arising from uncertainties about future values of the investment securities. The Group's unlisted equity securities include ones at fair value through profit or loss or other comprehensive income (Those were available-for-sale as of December 31, 2017). The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on equity portfolio are submitted to the Group's senior management on a regular basis. The Board of Directors shall review all equity investment decisions and approve where appropriate.

4. Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract and result in a financial loss. The Group is exposed to credit risk from operating activities (primarily for contract assets and accounts and notes receivable) and financing activities (primarily for bank deposits and various financial instruments).

The Group manages its credit risk in accordance with its credit risk policies, procedures and controls. Credit risk of all counterparties is assessed by considering their financial position, rating from credit rating agencies, past experience, current economic environment and the Group's internal rating criteria, etc. Certain customer's credit risk will also be managed by using credit enhancement tools, such as prepayments or insurances, to reduce their credit risk.

As of December 31, 2018 and 2017, the Group's total ten contract assets and receivables from customers accounted for 46% and 41% of the Group's overall contract assets and receivables, respectively. The credit concentration risk for the rest of contract assets and receivables was relatively insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks with good credit ratings, and financial institutions, companies and government entities with investment grade ratings. Consequently, there is no significant credit risk.

5. Liquidity risk management

The Group maintains its financial flexibility through the use of cash and cash equivalents, bank loans and convertible bonds. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted interest payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

| | < 1 year | 2 to 3 years | 4 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| 2018.12.31 | | | | | |
| Loans | $1,023,579 | $216,447 | $90,653 | $186,807 | $1,517,486 |
| Short-term notes and bills payable | 49,984 | - | - | - | 49,984 |
| Payables | 491,398 | - | - | - | 491,398 |
| Convertible bonds | - | 391,223 | - | - | 391,223 |
| | | | | | |
| 2017.12.31 | | | | | |
| Loans | $754,527 | $80,482 | $34,506 | $113,512 | $983,027 |
| Payables | 491,019 | - | - | - | 491,019 |
| Convertible bonds | - | 385,713 | - | - | 385,713 |

6. Reconciliation of liabilities from financing activities

Reconciliation of liabilities from January 1 to December 31, 2018:

| | Short-term loans | Short-term notes and bills payable | Long-term loans | Bonds payable | Total liabilities from financing activities |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| 2018.1.1 | $690,048 | $- | $292,979 | $385,713 | $1,368,740 |
| Cash flows | 277,548 | 49,984 | 250,525 | - | 578,057 |
| Non-cash changes | - | - | - | 5,510 | 5,510 |
| Changes in exchange rates | 6,386 | - | - | - | 6,386 |
| 2018.12.31 | $973,982 | $49,984 | $543,504 | $391,223 | $1,958,693 |

Reconciliation of liabilities from January 1 to December 31, 2017:

Not applicable.

7. Fair values of financial instruments

(1) The methods and assumptions applied in determining the fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used by the Group in measuring or disclosing the fair values of financial assets and liabilities:

A. The carrying amount of cash and cash equivalents, receivables, payables and other current liabilities approximate their fair value due to short maturity terms.

B. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (e.g. listed equity securities, beneficiary certificates, bonds and futures).

C. Fair value of equity instruments with no active market (including private placement of listed equity securities, equity securities of public companies with no active market and equity securities of private companies) are estimated using the market approach based on prices from market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and price-book ratio of similar entities).

D. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on quotations from counterparties or valuation method. The valuation method uses DCF method as a basis, and assumptions of interest rate and discount rate are primarily based on relevant information of similar instruments (such as yield curves published by the Taipei Exchange, fixing rate of commercial paper published by Reuters and credit risk, etc.)

E. The fair value of derivative financial instruments, which are not options and without market quotations, is determined based on quotations from counterparties or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the quotations from counterparties, appropriate option pricing model (e.g. Black-Scholes model) or other valuation method (e.g. Monte Carlo Simulation).

(2) Fair value of financial instruments measured at amortized cost

Except for cash and cash equivalents, receivables, payables and other current liabilities whose carrying amount approximate their fair value, the fair value of the Group's financial assets and financial liabilities measured at amortized cost is listed in the table below:

| | Carrying Amount | | Fair Value | |
|---|---|---|---|---|
| | 2018.12.31 | 2017.12.31 | 2018.12.31 | 2017.12.31 |
| Financial assets | | | | |
| Financial assets measured at amortized cost | $3,483 | (Note) | $3,483 | (Note) |
| Bond investments with no active market | (Note) | $6,705 | (Note) | $6,705 |
| Financial liabilities | | | | |
| Long-term loans | 543,504 | $292,979 | 543,504 | $292,979 |
| Bonds payable | 391,223 | 385,713 | 391,223 | 385,713 |

Note: The Group has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

(3) Fair value hierarchy for financial instruments

Please refer to Note 12(9) for details on the fair value hierarchy for financial instruments of the Group.

8. Derivative financial instruments

As of December 31, 2018 and 2017, the Group's derivative financial instruments (including forward exchange contracts and embedded derivatives) that were not eligible for hedge accounting and were outstanding are listed as follows:

Embedded derivatives

Embedded derivatives identified through the issuance of convertible bonds are already detached from the main contract and accounted for as at fair value through profit or loss. Please refer to Note 6(16) for details on contract information of those transactions.

For forward exchange contracts, the main purpose is to hedge the foreign currency risk of net assets or liabilities denominated in foreign currencies. As there will be corresponding cash inflows or outflows upon expiration and the Corporation has sufficient operation funds, no significant cash flow risk is expected.

9. Fair value hierarchy

(1) Definition of fair value hierarchy

For assets and liabilities measured or disclosed in fair values, they are categorized in the level of the lowest level input that is significant to the entire measurement. Inputs of each level are as follows:

Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities at the measurement date

Level 2 inputs are inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 inputs are unobservable inputs for the asset or liability

For assets and liabilities measured at a recurring basis, their categories shall be re-evaluated at the end of each reporting period to determine if there is any transfer between different levels of fair value hierarchy.

(2) Hierarchy of fair value measurement

The Group does not have assets that are measured at fair value on a non-recurring basis. The fair value hierarchy of assets and liabilities measured at a recurring basis was disclosed as follows:

December 31, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets measured at fair | | | | |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| value: | | | | |
| Financial assets at FVTPL | | | | |
| Convertible bonds with embedded derivative financial instruments | $- | $40 | $- | $40 |
| Financial assets at FVTOCI - non-current | - | 3,483 | - | 3,483 |

December 31, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets measured at fair value: | | | | |
| Financial assets at FVTPL | | | | |
| Convertible bonds with embedded derivative financial instruments | $- | $80 | $- | $80 |

Transfers between Level 1 and Level 2 fair value hierarchy

For the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value hierarchy for the Group's assets and liabilities measured at fair value on a recurring basis.

(3) Fair value hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value shall be disclosed

December 31, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Liabilities not measured at fair value but for which the fair value is disclosed: | | | | |
| Long-term loans | $- | $- | $543,504 | $543,504 |
| Short-term notes and bills payable | - | - | 49,984 | 49,984 |
| Bonds payable | - | 391,223 | - | 391,223 |

December 31, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Liabilities not measured at fair value but for which the | | | | |

| | | | | |
|---|---|---|---|---|
| fair value is disclosed: | | | | |
| Long-term loans | $- | $- | $292,979 | $292,979 |
| Bonds payable | - | 385,713 | - | 385,713 |

10. Significant financial assets and liabilities denominated in foreign currencies

Information regarding significant financial assets and liabilities denominated in foreign currencies is listed below:

Unit: thousands

| | 107.12.31 | | | 106.12.31 | | |
|---|---|---|---|---|---|---|
| | Foreign currency | Exchange rates | NT$ | Foreign currency | Exchange rates | NT$ |
| Financial assets | | | | | | |
| Monetary items: | | | | | | |
| USD | $8,080 | 30.6650 | $247,764 | $8,790 | 29.7100 | $261,162 |
| EUR | 1,578 | 35.0000 | 55,244 | 1,928 | 35.3700 | 68,194 |
| JPY | 10,264 | 0.2762 | 2,835 | 44,819 | 0.2622 | 11,752 |
| CHF | 330 | 31.0400 | 10,253 | 11,212 | 30.3100 | 36,751 |
| CNY | 70,786 | 4.4470 | 314,787 | 52,988 | 4.5400 | 240,564 |
| GBP | 32 | 38.6700 | 1,247 | 62 | 39.9000 | 2,481 |
| Financial liabilities | | | | | | |
| Monetary items: | | | | | | |
| USD | $1,442 | 30.7650 | $44,354 | $1,079 | 29.8100 | $32,170 |
| EUR | 1,332 | 35.4000 | 47,169 | 594 | 35.7700 | 21,234 |
| JPY | 1,949 | 0.2802 | 546 | 260 | 0.2662 | 69 |
| CHF | 26 | 31.3300 | 818 | 35 | 30.6000 | 1,056 |
| CNY | 699 | 4.4970 | 3,144 | 3,869 | 4.5900 | 17,757 |
| GBP | - | 39.0900 | - | 1 | 40.3200 | 29 |
| CAD | 25 | 22.6900 | 567 | - | 23.8200 | - |

As entities within the Group transact in various currencies, the exchange gain (loss) of monetary financial assets and liabilities cannot be disclosed by currencies of significant influence. For the years ended December 31, 2018 and 2017, the Group's foreign exchange gain (loss) amounted to NT$4,796 thousand and NT$(29,542) thousand, respectively.

The above information is disclosed based on the carrying amount of foreign currency (already converted to the functional currency).

11. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages and adjusts its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

## XIII. Additional disclosures

1. Information on significant transactions

(1) Capital financing to others: Please refer to Table 1

(2) Endorsements/Guarantees for others: Please refer to Table 2.

(3) Marketable securities held at the end of period (excluding investments in subsidiaries, associates and joint ventures): Please refer to Table 3.

(4) Individual securities acquired or disposed of with accumulated amount of at least NT$300 million or 20 percent of the paid-in capital for the period: None.

(5) Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the period: None.

(6) Disposal of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the period: None.

(7) Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the period: Please refer to Table 4.

(8) Accounts receivable from related parties of at least NT$100 million or 20 percent of the paid-in capital at the end of the period: Please refer to Table 5.

(9) Engaging in trading of derivatives: Please refer to Notes 6(2), 6(16) and 12 of the consolidated financial statements.

(10) Others: Business relations and significant transactions between parent and subsidiary companies: Please refer to Table 6.

2. Information on investees: Please refer to Table 7.

3. Information on investments in China: Please refer to Table 8.

XIV. Segment information

1. The Group's primary income comes from sales of hip/knee replacements, artificial spine, trauma-treatment products, and OEM products. According to the management's judgment, the Group belongs to a single operating segment.

2. Geographical information

Revenue from external customers:

| | 2018 | 2017 |
|---|---|---|
| Taiwan | $868,831 | $734,392 |
| Asia | 650,072 | 522,357 |
| America | 400,580 | 424,144 |
| Europe | 371,629 | 250,504 |
| Africa | 9,213 | 11,214 |
| Australia | 31,922 | 29,981 |
| Total | $2,332,247 | $1,972,592 |

Non-current Assets:

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Taiwan | $2,140,177 | $2,088,201 |
| United States | 110,038 | 108,670 |
| Europe | 199,851 | 105,340 |
| Japan | 18,752 | 2,179 |
| Total | $2,468,818 | $2,304,390 |

3. Information on major customers

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| United Medical Instrument Co., Ltd. | $416,002 | $339,519 |

Notes for consolidated financial statements of United Orthopedic Corporation and its subsidiaries (continued)

(All amounts expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 1. Capital financing to others as at December 31, 2018:

Unit: NT$1,000

| No. | Lender | Borrower | Item | Whether the recipien | Highest amount in current | Balance at the end of the period (approved by the | Actual expenditures | Interest range | ital financing fea | ount of transact | Reason for short-term financing | Appropriated allowance | Collateral | | Cap of capital financing for individual | Total loan limit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | Name | Value | | |
| 0 | United Orthopedic Corporation | UOC America Holding Corporation | Account receivable - s | Yes | $30,000 | $30,000 | $- | 0.7928%~1.55% | Business features | $102,961 | None | $- | None | $- | $102,961 | $241,353 |
| 0 | United Orthopedic Corporation | United Orthopedic Corporation (Suisse) SA | Account receivable - s | Yes | 93,465 | 93,465 | - | 0.7928%~1.55% | Business features | 252,692 | None | - | None | - | 241,353 | 241,353 |
| 1 | UOC America Holding Corporation | UOC USA, Inc. | Account receivable - s | Yes | 30,000 | 30,000 | - | 0.7928%~1.55% | Business features | 104,066 | None | - | None | - | 104,066 | 120,676 |
| 2 | United Orthopedic Corporation (Suisse) SA | United Orthopedic Corporation (France) | Account receivable - s | Yes | 84,119 | 84,119 | - | 0.7928%~1.55% | Business features | 173,388 | None | - | None | - | 120,676 | 120,676 |

Note 1: The Company's cap of financing and borrowings shall not exceed 30% of the Company's paid-up capital.

Note 2: Financing to an individual party shall be limited within the bilateral business transaction amount over the last year.

Note 3: The subsidiary's cap of financing and borrowings shall not exceed 15% of the company's paid-up capital.

Notes for consolidated financial statements of United Orthopedic Corporation and its subsidiaries (continued)
(All amounts expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 2. Endorsements/Guarantees for others as at December 31, 2018:

Unit: NT$1,000

| No. | Name of company providing endorsements/guarantees | Recipient of endorsements/guarantees | | Limits on endorsements/guarantees for a single enterprise | Highest endorsement/guarantee for the current period | Endorsements/guarantees balance at the end of the period | Actual expenditures | Property-secured endorsement/guarantee amount | Accumulated endorsement/guarantee amount to net worth in the financial statements | Maximum endorsement/guarantee amount | Endorsements/guarantees provided by parent company to | Endorsements/guarantees provided by subsidiaries to parent | Endorsements/Guarantees for entities in Mainland China |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Company name | Relationship | | | | | | | | | | |
| 0 | Orthopedic Corp | UOC USA, Inc. | Wholly owned sub-subsidiary | $241,353 | $224,963 | $224,963 | $194,968 | $- | 10.25% | | Y | N | N |

Note 1: The Company's total sum of endorsements/guarantees shall not exceed 50% of the Company's paid-up capital; to an individual enterprise, the endorsement or guarantee shall not exceed 30% of the company's paid-up capital.

(All amounts expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 3: Marketable securities held at the end of current period (excluding investments in subsidiaries, associates and joint ventures) as of December 31, 2018:

Unit: NT$1,000

| Company holding shares | Type and name of securities (Note 1) | Relationship with the issuer of securities (Note 2) | Accounting item | End of the period | | | | Remark(Note 4) |
|---|---|---|---|---|---|---|---|---|
| | | | | Number of shares (thousand | Carrying Amount (Note 3) | Shareholding Ratio | Fair value | |
| United Orthopedic Corp | Changgu Biotech Corporation | The Company is a share | Equity instruments measured at fair value through other comprehensive income - non-current | 478 | $1,957 | 19.26% | $1,957 | None |
| A-SPINE Asia Co., Ltd | Taiwan Main Orthopaedic | Subsidiary is a sharehold | Equity instruments measured at fair value through other comprehensive income - non-current | 196 | 1,526 | 3.77% | 1,526 | None |

Note 1: The term "marketable securities" as used in this table refers to stocks, bonds, beneficiary certificates, and securities specified in IFRS 9.

Note 2: If the issuer is not a related party, this field is not required.

Note 3: For accounts measured at fair value, please fill in the carrying amount after adjustment to fair value and deduct the accumulated impairment of the book value. If the carrying amount is not measured at fair value, please fill in the carrying amount based on the original acquisition cost or amortized cost deducted by the cumulative impaired balance on the account.

Note 4: If the securities listed are restricted by the provision of guarantees, the pledge of loans or other regulations, the number of shares guaranteed or pledged and the usage and restrictions of the loan shall be specified in the Remark column.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 4: Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital

Unit: NT$1,000

| Buyer/seller company | Counterparty | Relationship | Transaction status | | | | Unusual trade conditions and its | | Bills and accounts receivable (payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase (sales) | Amount | Percentage of total purchases (sales) (%) | Credit period | Unit price | Credit period | Balance | Ratio to total receivable (payable) (%) | |
| United Orthopedic Corporation | UOC America Holding Corporation | Parent/Subsidiary Company | Sales | $102,961 | 5.75% | 90 days | Note | Note | $46,086 | 5.34% | |
| United Orthopedic Corporation | United Orthopedic Corporation (Suisse) SA | Parent/Sub-subsidiary | Sales | $252,692 | 14.12% | 120 days | Note | Note | | 37.88% | |
| United Orthopedic Corporation | United Medical Instrument Co., Ltd. | Affiliate company | Sales | $394,665 | 22.06% | 90 days | Note | Note | | 21.20% | |
| UOC America Holding Corporation | UOC USA, Inc. | Subsidiary/Sub-subsidiary Company | Sales | $104,066 | 99.23% | 90 days | Note | Note | $46,223 | 100.00% | |
| United Orthopedic Corporation (Suisse) SA | United Orthopedic Corporation (France) | Affiliate company | Sales | $173,388 | 81.86% | 90 days | Note | Note | | 96.26% | |

Note: There is no significant difference from the normal trade.

(All amounts expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 5: Accounts receivable from related parties of at least NT$100 million or 20 percent of the paid-in capital as of December 31, 2018

Unit: NT$1,000

| Company with accounts receivable | Related Party | Relationship | Balance of receivables from related | Turnover rate | Overdue accounts | | Amount received from related parties | Amount of allowance for |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Handling method | | |
| United Orthopedic Corporation | UOC America Holding Corporation | Parent/Subsidiary Company | $46,086 (Note 1) | 3.02 | $- | - | $25,790 | $- |
| United Orthopedic Corporation | United Orthopedic Corporation (Suisse) SA | Parent/Sub-subsidiary | $326,686 (Note 1) | 0.91 | $- | - | $20,967 | $- |
| UOC America Holding Corporation | UOC USA, Inc. | Subsidiary/ Sub-subsidiary Company | 46,223 (Note 1) | 3.06 | - | - | - | - - |
| United Orthopedic Corporation | United Medical Instrument Co., Ltd. | Affiliate company | 182,817 (Note 1) | 2.98 | - | - | 140,389 | - |
| United Orthopedic Corporation (Suisse) SA | United Orthopedic Corporation (France) | Affiliate company | 120,116 (Note 1) | 1.34 | - | - | 28,160 | - |

Note 1: Receivables - related parties

Notes for consolidated financial statements of United Orthopedic Corporation and its subsidiaries (continued)
(All amounts expressed in thousands of New Taiwan Dollars unless otherwise specified)

Attached table 6. Business relations and significant transactions between parent and subsidiary companies:

| No. (Note 1) | Name of trading partner | Trading relations | Nature of relationship(Note 2) | Transaction status | | | |
|---|---|---|---|---|---|---|---|
| | | | | Account | Amount | Trade conditions | Consolidated Net Revenue or Total Assets |
| 2018 | | | | | | | |
| 0 | United Orthopedic Corporation | UOC America Holding Corporation | 1 | Sales income | $102,961 | Note 4 | 4.41% |
| 0 | United Orthopedic Corporation | UOC America Holding Corporation | 1 | Accounts receivable | 46,086 | - - | 0.95% |
| 0 | United Orthopedic Corporation | United Orthopedic Corporation (Suisse) SA | 4 | Sales income | 252,692 | Note 4 | 10.83% |
| 0 | United Orthopedic Corporation | United Orthopedic Corporation (Suisse) SA | 4 | Accounts receivable | 326,686 | - - | 6.74% |
| 0 | United Orthopedic Corporation | United Biomech Japan | 1 | Sales income | 27,424 | Note 4 | 1.18% |
| 0 | United Orthopedic Corporation | United Biomech Japan | 1 | Accounts receivable | 28,172 | - - | 0.58% |
| 0 | United Orthopedic Corporation | A-SPINE Asia Co., Ltd. | 1 | Sales income | 369 | Note 4 | 0.02% |
| 0 | United Orthopedic Corporation | A-SPINE Asia Co., Ltd. | 1 | Accounts receivable | 377 | - - | 0.01% |
| 1 | UOC America Holding Corporation | United Orthopedic Corporation | 2 | Sales income | 803 | Note 4 | 0.03% |
| 1 | UOC America Holding Corporation | United Orthopedic Corporation | 2 | Accounts receivable | - | - - | 0.00% |
| 1 | UOC America Holding Corporation | UOC USA, Inc. | 5 | Sales income | 104,066 | Note 4 | 4.46% |
| 1 | UOC America Holding Corporation | UOC USA, Inc. | 5 | Accounts receivable | 46,223 | - - | 0.95% |
| 2 | United Orthopedic Corporation (Suisse) SA | United Orthopedic Corporation (France) | 6 | Sales income | 173,388 | Note 4 | 7.43% |
| 2 | United Orthopedic Corporation (Suisse) SA | United Orthopedic Corporation (France) | 6 | Accounts receivable | 120,116 | - - | 2.48% |
| 3 | United Orthopedic Corporation (France) | United Orthopedic Corporation (Suisse) SA | 6 | Sales income | 769 | Note 4 | 0.03% |
| 3 | United Orthopedic Corporation (France) | United Orthopedic Corporation (Suisse) SA | 6 | Accounts receivable | - | - - | 0.00% |
| 4 | A-SPINE Asia Co., Ltd. | Pauline Medical Co., Ltd. | 5 | Sales income | 28,044 | Note 4 | 1.20% |
| 4 | A-SPINE Asia Co., Ltd. | Pauline Medical Co., Ltd. | 5 | Accounts receivable | 10,437 | - - | 0.22% |

Note 1: Business operating information between parent company and subsidiary shall be indicated in column number, number filled in as follows:
1. Fill in 0 for parent company.
2. Number subsidiaries starting from 1.

Note 2: Six types of relations with transaction parties are applicable; simply marking the type:
1. Parent - Subsidiary.
2. Subsidiary - Parent
3. Subsidiary - Subsidiary
4. Parent - Sub-subsidiary
5. Subsidiary - Sub-subsidiary
6. Sub-subsidiary - Sub-subsidiary

Note 3: For the percentage of transaction amount to consolidated total revenue or total assets, if the items constitute liabilities on the balance sheet, they calculated based on their percentage of ending balance of consolidated total assets; if the items constitute profits/losses, they are calculated based on their percentage of interim accumulated amount to consolidated total revenue.

Note 4: The aforementioned operating income conditions and collection period have no significant differences with that of normal exporting customers.

Notes for consolidated financial statements of United Orthopedic Corporation and its subsidiaries (continued)

(All amounts expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 7: Information on investees

Unit: NTD 1,000/USD 1,000/CHF 1,000/EUR 1,000/JPY 1,000

| Investment company name | Investee company name | Location | Main business items | Original investment amount | | Holding at the end of the period | | | Current (loss) gain from investee companies | Investment (loss) gain recognized in current period | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | End of the current period | End of previous year | Number of Shares | Ratio | Carrying amount | | | |
| United Orthopedic Corporation | United Medical (B.V.I.) Corporation | British Virgin Islands | Holding company, trading | $-<br>(Note 1) | $360,194<br>(USD 11,400) | $-<br>(Note 1) | -<br>(Note 1) | $-<br>(Note 1) | $(488) | $(488) | Subsidiary |
| United Orthopedic Corporation | UOC America Holding Corporation | British Virgin Islands | Holding company, trading | 232,933<br>(USD 7,500) | 139,768<br>(USD 4,500) | 7,500<br>(Note 8) | 100% | 21,781 | (86,263) | (86,263) | Subsidiary |
| United Orthopedic Corporation | UOC Europe Holding SA | Switzerland | Holding Company | 358,430<br>(CHF 11,500) | 121,089<br>(CHF 3,750) | 11,500<br>(Note 3) | 96% | 142,108 | (16,731) | (51,794) | Subsidiary |
| United Orthopedic Corporation | United Biomech Japan | Japan | Trading, wholesale | 58,261 | 32,047<br>(JPY 106,500) | 2,040<br>(Note 5) | 53% | (2,914) | (44,357) | (23,220) | Subsidiary |
| United Orthopedic Corporation | A-SPINE Asia Co., Ltd. | Taiwan | Trade, wholesale, manufacture | 650,480 | 613,440 | 12,172,400<br>(Note 6) | 99.4% | 648,741 | 50,105 | 41,965 | Subsidiary |
| United Medical (B.V.I.) Corporation | Lemax Co., Ltd. | British Virgin Islands | Holding Company | -<br>(Note 1) | 360,194<br>(USD 11,400) | -<br>(Note 1) | -<br>(Note 1) | -<br>(Note 1) | (1,001) | (1,001) | Sub-subsidiary |
| UOC America Holding Corporation | UOC USA, Inc. | USA | Trading, wholesale | 232,933<br>(USD 7,500) | 139,768<br>(USD 4,500) | 1,500<br>(Note 2) | 100% | 89,221 | (88,535) | (88,535) | Sub-subsidiary |
| UOC Europe Holding SA | United Orthopedic Corporation (Suisse) SA | Switzerland | Trading, wholesale | 49,987<br>(CHF 1,550) | 39,309<br>(CHF 1,200) | 1,550<br>(Note 3) | 100% | 58,631 | 8,823 | 8,823 | Sub-subsidiary |
| UOC Europe Holding SA | United Orthopedic Corporation (France) | France | Trading, wholesale | 245,891<br>(EUR 6,900) | 94,884<br>(EUR 2,606) | 6,900<br>(Note 4) | 100% | 194,236 | (19,106) | (19,106) | Sub-subsidiary |
| A-SPINE Asia Co., Ltd. | Boiling Medical Co., Ltd. | Taiwan | Trading, wholesale | 4,800 | 4,800 | 480,000<br>(Note 7) | 100% | 11,229 | 235 | 235 | Sub-subsidiary |

Note 1: Liquidation completed on September 30, 2018.

Note 2: The face value per share is USD 5,000.

Note 3: The face value per share is CHF 1,000.

Note 4: The face value per share is EUR 1,000.

Note 5: The face value per share is JPY 50,000.

Note 6: The face value per share is TWD 10, and the per share purchase price is TWD 60.

Note 7: The face value per share is TWD 10.

Note 8: The face value per share is USD 1,000.

Notes for consolidated financial statements of United Orthopedic Corporation and its subsidiaries (continued)
(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 8: Information on investments in China:

Unit: NTD thousand/USD thousand

| Name of investee company in China | Main business items | Actual paid-in capital | Investment method | Cumulative investment remitted from Taiwan at the beginning of the period | Amount remitted from Taiwan or recollected as of current period: Remit | Amount remitted from Taiwan or recollected as of current period: Recollect | Cumulative investment remitted from Taiwan at the end of the current period | Current (loss) gain from investee companies | The Company's shareholding ratio through direct or indirect investments | Profit or loss for the current period | Carrying amount of investment | Accumulated Repatriation of Investment Income as of the end of the period. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Orthopedic | Plant and joint produc | The registered capital is RMB 2( | (Note 1) | $487,520<br>(CNY 98,000 thousand) | $- | $- | $487,520<br>(CNY 98,000 thousand)<br>(Note 2) | $(11,622) | 49% | $(5,694) | $378,707 | $- |
| United Medical Co., | Artificial implants, mec | The registered capital is US$5.2 | (Note 2) | 159,690<br>(USD 5,000 thousand) | - | 159,690<br>(USD 5,000 thousand) | - | - | - | - | - | - |

| Cumulative investment remitted from Taiwan to Mainland China as of the end of the period | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs | Ceiling on investment in Mainland China imposed by the Investment Commission of the Ministry of Economic Affairs |
|---|---|---|
| $487,520<br>(CNY 98,000 thousand) | $487,520<br>(CNY 98,000 thousand) | $1,339,090 |

Note 1: Direct investment in China.

Note 2: Including technical value of RMB 30,000 thousand.

Notes for consolidated financial statements of United Orthopedic Corporation and its subsidiaries (continued)

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 8-1 Significant transactions directly or indirectly invested by the Company through third-region companies and reinvested companies in China:

(1) Purchase amount and percentage, and ending accounts receivable balances and percentage:

Unit: NT$1,000

| Year | Related Party | Company name | Purchase amount | Percentage to the company's purchase | Ending accounts receivable balances | Percentage % |
|---|---|---|---|---|---|---|
| 2018 | United Orthopedic Corporation | United Medical Co., Ltd. | $70,797 | 14.80% | $1,364 | 2.36% |

(2) Sale amount and percentage, and ending accounts receivable balances and percentage:

| Year | Related Party | Company name | Sales amount | Percentage to the company's sales | Ending accounts receivable balances | Percentage % |
|---|---|---|---|---|---|---|
| 2018 | United Orthopedic Corporation | United Medical Technology (Shanghai) Co., Ltd. | 4,667 | 0.26% | 4,699 | 0.54% |
| 2018 | United Orthopedic Corporation | United Medical Instrument Co., Ltd. | 394,665 | 22.06% | 182,817 | 21.20% |
| 2018 | United Orthopedic Corporation | United Medical Co., Ltd. | 22,144 | 1.24% | 268 | 0.03% |
| 2018 | United Orthopedic Corporation | Shinva United Orthopedic Corporation | 26,035 | 1.45% | 15,427 | 1.79% |
| 2018 | A-SPINE Asia Co., Ltd. | United Medical Instrument Co., Ltd. | 21,337 | 6.98% | 4,625 | 6.53% |
| 2018 | A-SPINE Asia Co., Ltd. | United Medical Co., Ltd. | 2,803 | 0.92% | - | 0.00% |
| 2018 | A-SPINE Asia Co., Ltd. | Shinva United Orthopedic Corporation | 2,828 | 0.93% | 2,820 | 3.98% |

(3) Ending balance of endorsement, guarantee or collateral provided and purposes:

None

(4) Maximum balance of financing, ending balance, interest rate range and total interest in the period:

None

(5) Other transactions that have significant impact on the balance of the current period and financial status:

None

## V. The Company's individual financial report audited and attested by a CPA for the past year

# STATEMENT

For 2018 (January 1 to December 31, 2018), affiliated businesses of this Company that shall be included according to the rules prescribed by the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" were the same as those companies that shall be included into the parent and subsidiary consolidated financial statement as prescribed by International Financial Reporting Standards No. 10 (IFRS 10). All information to be disclosed in the consolidated financial statements of affiliated enterprises has already been disclosed in the consolidated financial statement of the parent company and subsidiaries. Hence, consolidated financial statements of affiliated businesses were therefore not generated separately.

As hereby declared

Company name: United Orthopedic Corporation

Person in Charge: Lin, Yan-Shen

March 18, 2019

INDEPENDENT AUDITORS' REPORT

To United Orthopedic Corporation:

**Audit opinion**

We have audited the individual balance sheets of United Orthopedic Corporation as of December 31, 2018 and 2017, and the related individual statements of comprehensive income, statement of changes in equity, statement of cash flow, and notes to individual financial statements (including summary of significant accounting policies) for the years then ended.

In our opinion, the aforementioned individual financial statements present fairly, in all material respects, the financial status of United Orthopedic Corporation as of December 31, 2018 and 2017, and its financial performance and cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers."

**Basis for audit opinion**

We conducted our audits in accordance with the "Regulations Governing the Auditing and Attestation of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Responsibilities section of our report. We are independent of United Orthopedic Corporation in accordance with the Code of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other responsibilities under the Code. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our opinion.

**Key audit matters**

Key audit matters are ones that were of most significance in our audit of the individual financial statements of United Orthopedic Corporation for the year ended December 31, 2018 based on our professional judgment. These items have been covered during the audit of the overall individual financial statements and in forming the audit opinion. We will not express a separate opinion on these items.

Inventory valuation

The net inventories of United Orthopedic Corporation were NT$710,615 thousand as of December 31, 2018, which accounted for 17% of the individual total assets. It was considered significant to the individual financial statement. Hence, we determined inventory valuation to be a key audit item. Our audit procedures included, but not limited to, the following steps: to learn and test the effectiveness of internal control established by management for inventory valuation and obsolescence loss. We observed stocktaking on-site to ensure the conditions and safekeeping of their inventories. We evaluated the appropriateness of management's accounting policies on obsolescence and out-of-date inventories, including the identification of obsolescence and out-of-date inventories. We randomly selected inventory samples to audit their documents up to sales or purchase invoices and carried out verifications over inventory valuation. We also considered the appropriateness of inventory disclosures in Note 5 and Note 6 to the individual financial statements.

Revenue recognition

United Orthopedic Corporation's primary products are orthopedic implants - hip/knee replacement, trauma-treatment products and OEM products, which generated NT$1,789,376 thousand in revenue for the year ended December 31, 2018. The amount was considered significant to the individual financial statement. Hence, we determined revenue recognition to be a key audit item. Our audit procedures included, but not limited to, the following steps: to learn and evaluate the appropriateness of revenue recognition accounting policies. We learned and tested the effectiveness of internal control established by management for sales cycle. We ensured that revenue is recognized when control over the product was transferred, including the selection of important customers as samples to verify transaction terms and relevant documents. We conducted analytical procedures on product types, regions and monthly gross margins. We also conducted analytical procedures on significant sales returns and allowance to understand the reasons for those transactions. We run the sales cut-off tests before and after the balance sheet date. We also considered the appropriateness of sales revenue disclosures in Note 6 to the individual financial statements.

Recognition of expenditure on internally generated intangible assets

United Orthopedic Corporation's net carrying amount of internally generated intangible assets were NT$63,710 thousand as of December 31, 2018, which was considered significant to the individual financial statement. United Orthopedic Corporation invested a significant amount of development costs on orthopedics equipment, including hip/knee replacements and surgical instruments, due to its corporate structure; therefore, the expenditures on internal developments were capitalized. In order to meet the six capitalization requirements for development stage, United Orthopedic Corporation needed to provide technical feasibility assessments by project types to identify that a particular technology had reached technical feasibility. Moreover, the finance department shall conduct capitalization project assessments by development project. The management executed the aforementioned assessments on individual project based on internal and external information. As management's judgment and assumptions were involved, we determined this to be a key audit item. Our audit procedures included, but not limited to, evaluating and testing the effectiveness of the design and execution of internal control concerning the capitalization of development expenditure. The tasks included to review the reasonableness of written policies on the capitalization of internal intangible assets and select random samples for project management assessment, i.e. to ensure the allocation, capitalization and timing of amortization where project costs were concerned were consistent with the written policies on the capitalization of internal intangible assets. We also considered the appropriateness of intangible assets disclosures in Note 5 and Note 6 to the individual financial statements.

**Responsibilities of management and governance bodies for the individual financial statements**

The responsibilities of management are to prepare the individual financial statements with fair presentation in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," and maintain necessary internal controls associated with the preparation in order to ensure the financial statements are free from material misstatement arising from fraud or error.

In preparing the individual financial statements, management is responsible for assessing the ability of United Orthopedic Corporation in continuing as a going concern, disclosing associated matters and adopting the going concern basis of accounting unless the management intends to liquidate the United Orthopedic Corporation or cease the operations, or has no realistic alternative but to do so.

The governance bodies of United Orthopedic Corporation (including the Audit Committee or Supervisors) are responsible for supervising the financial reporting process.

**Auditors' responsibilities for the audit of the individual financial statements**

Our objectives are to obtain reasonable assurance on whether the individual financial statements as a whole are free from material misstatement arising from fraud or error, and to issue an independent auditors' report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. If those amounts of misstatements, either individually or in the aggregate, could reasonably be expected to influence the economic decisions of financial statements users, they are considered material.

We have exercised our professional judgment and maintained professional doubt when exercising auditing work according to the auditing standards generally accepted in the Republic of China. We also perform the following tasks:

1. Identify and assess the risks of material misstatement arising from fraud or error within the individual financial statements; design and execute counter-measures in response to those risks, and obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Therefore, the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error.

2. Understand internal controls relevant to the audit in order to design appropriate audit procedures under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of United Orthopedic Corporation's internal control.

3. Evaluate the appropriateness of accounting policies adopted and the reasonableness of accounting estimates and relevant disclosures made by management.

4. Based on the audit evidence obtained, we conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists for events or conditions that may cast significant doubts on United Orthopedic Corporation's ability to continue as a going concern. If we are of the opinion that a material uncertainty exists, we shall remind users of the individual financial statements to pay attention to relevant disclosures in the notes to those statements within our audit report. If such disclosures are inadequate, we need to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may result in United Orthopedic Corporation ceasing to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the individual financial statements (including relevant notes), and whether the individual financial statements adequately represent the underlying transactions and events.

6. Obtain sufficient and appropriate audit evidence concerning the financial information of entities within the Group to express an opinion on the individual financial statements. We are responsible for the direction, supervision, and performance of the audit and the preparation of an audit opinion on the Group.

Matters communicated between us and the governance bodies include the planned scope and timing of the audit, and significant audit findings (including any significant deficiencies in internal control identified during the audit).

We also provide governance bodies with a declaration that we have complied with the Code of Professional Ethics for Certified Public Accountant of the Republic of China regarding independence, and to communicate with them all relationships and other matters that may possibly be deemed to impair our independence (including relevant preventive measures).

From the matters communicated with governance bodies, we determine the key audit matters within the audit of United Orthopedic Corporation's individual financial statements for the year ended December 31, 2018. We have clearly indicated such matters in the independent auditors' report. Unless legal regulations prohibit the public disclosure of specific items, or in extremely rare cases, where we decided not to communicate over specific items in the independent auditors' report for it could be reasonably anticipated that the negative effects of such disclosure would be greater than the public interest it brings forth.

Ernst & Young
Approval Number from Competent Authority for the Auditing and Attestation of Public Companies' Financial Statements by Certified Public Accountants:
(2002) Taiwan-Finance-Securities-VI-144183
Financial-Supervisory-Securities-VI-0970038990

Zhang Zhi-Ming

Accountant:

Huang Jian-Ze

March 18, 2019

United Orthopedic Corporation
Individual Balance Sheet
December 31, 2018 and December 31, 2017

Unit: NT$1,000

| Code | Accounting item | Note | December 31, 2018 Amount | % | December 31, 2017 Amount | % |
|---|---|---|---|---|---|---|
| | Current assets | | | | | |
| 1100 | Cash and cash equivalents | 4 and 6.1 | $279,681 | 7 | $266,901 | 7 |
| 1150 | Net bills receivable | 4 and 6.7 | 3,735 | - | 2,912 | - |
| 1170 | Net accounts receivable | 4 and 6.8 | 246,045 | 6 | 190,058 | 5 |
| 1180 | Accounts receivable - related parties (net) | 4, 6.8 and 7 | 605,571 | 14 | 410,896 | 11 |
| 1200 | Other accounts receivable | 8 | 6,331 | - | 13,224 | - |
| 1210 | Other accounts receivable - related parties (net) | 7 | 1,316 | - | 309 | - |
| 1220 | Current income tax assets | 4 and 6.26 | 165 | - | - | - |
| 130X | Inventory | 4 and 6.9 | 710,615 | 17 | 611,852 | 16 |
| 1410 | Prepayment | | 19,738 | - | 24,186 | 1 |
| 1470 | Other current assets | | 131 | - | 238 | - |
| 11xx | Total current assets | | 1,873,328 | 44 | 1,520,576 | 40 |
| | Non-current Assets | | | | | |
| 1510 | Financial assets at fair value through profit or loss - non-current | 4, 6.2 and 6.15 | 40 | - | 80 | - |
| 1517 | Financial assets measured at fair value through other comprehensive income - non-current | 4 and 6.3 | 1,957 | - | - | - |
| 1535 | Financial assets at amortized cost - non-current | 4 and 6.4 and 8 | 6,714 | - | - | - |
| 1543 | Financial assets carried at cost - non-current | 4 and 6.5 | - | - | 2,850 | - |
| 1546 | Investment in debt instrument in non-active market - non-current | 4 and 6.6 and 8 | - | - | 6,705 | - |
| 1550 | Investment that adopts equity method | 4 and 6.10 | 1,191,337 | 28 | 1,151,189 | 30 |
| 1600 | Property, plant and equipment | 4, 6.11 and 8 | 1,027,850 | 24 | 1,008,602 | 27 |
| 1780 | Intangible assets | 4 and 6.12 | 76,478 | 2 | 37,583 | 1 |
| 1840 | Deferred income tax assets | 4 and 6.26 | 74,531 | 2 | 58,561 | 2 |
| 1900 | Other non-current assets | | 16,285 | - | 19,699 | - |
| 15xx | Total Non-current assets | | 2,395,192 | 56 | 2,285,269 | 60 |
| 1xxx | Total assets | | $4,268,520 | 100 | $3,805,845 | 100 |

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

Chairman: Lin, Yan-Shen Manager: Lin, Yan-Shen Accounting Manager: Deng Yuan-Chang

United Orthopedic Corporation
Parent Consolidated Balance Sheet (continued)
December 31, 2018 and December 31, 2017

Unit: NT$1,000

| Code | Liabilities and Equity<br>Accounting item | Note | December 31, 2018<br>Amount | % | December 31, 2017<br>Amount | % |
|---|---|---|---|---|---|---|
| | Current liabilities | | | | | |
| 2100 | Short-term loans | 4 and 6.13 | $743,619 | 17 | $500,000 | 13 |
| 2110 | Short-term notes and bills payable | 4 and 6.14 | 49,984 | 1 | - | - |
| 2130 | Contract liability - current | 4 and 6.20 | 1,870 | - | - | - |
| 2150 | Notes payable | | 535 | - | 2,302 | - |
| 2170 | Accounts payable | | 55,905 | 1 | 77,222 | 2 |
| 2180 | Accounts payable - related parties | 4 & 7 | 1,364 | - | 17,047 | - |
| 2200 | Other accounts payable | | 240,161 | 6 | 258,535 | 7 |
| 2220 | Other payables - related parties | 7 | 245 | - | 653 | - |
| 2230 | Current income tax liabilities | 4 and 6.26 | 2,062 | - | 30,448 | 1 |
| 2300 | Other current liabilities | | 4,340 | - | 5,015 | - |
| 2322 | Long-term loan maturing in one year | 4 and 6.16 | 42,982 | 1 | 57,864 | 2 |
| 21xx | Total current liabilities | | 1,143,067 | 26 | 949,086 | 25 |
| | Non-current liabilities | | | | | |
| 2530 | Bonds payable | 615 | 391,223 | 9 | 385,713 | 10 |
| 2540 | Long-term loans | 4 and 6.16 | 407,907 | 10 | 135,885 | 4 |
| 2570 | Deferred income tax liabilities | 4 and 6.26 | - | - | 7 | - |
| 2600 | Other non-current liabilities | | 198 | - | 154 | - |
| 2630 | Long-term deferred income | 4 and 6.10 | 79,792 | 2 | 105,265 | 3 |
| 2640 | Net defined benefit liability - non-current | 4 and 6.17 | 11,601 | - | 16,856 | - |
| 2650 | Investments accounted for using equity method | 4 and 6.10 | 2,914 | - | 7,964 | - |
| 25xx | Total non-current liabilities | | 893,635 | 21 | 651,844 | 17 |
| 2xxx | Total Liabilities | | 2,036,702 | 47 | 1,600,930 | 42 |
| | Equity | 4 and 6.18 | | | | |
| 3100 | Capital | | | | | |
| 3110 | Capital - common stock | | 804,509 | 19 | 797,129 | 21 |
| | Total capital | | 804,509 | 19 | 797,129 | 21 |
| 3200 | Capital reserve | | 1,280,536 | 30 | 1,243,611 | 33 |
| 3300 | Retained earnings | | | | | |
| 3310 | Statutory surplus reserve | | 68,932 | 2 | 55,906 | 1 |
| 3320 | Special surplus reserve | | 47,655 | 1 | 31,620 | 1 |
| 3350 | Undistributed earnings | | 125,668 | 3 | 129,464 | 3 |
| | Total retained earnings | | 242,255 | 6 | 216,990 | 5 |
| 3400 | Other equity | | | | | |
| 3410 | Difference on translation of financial statements of foreign operations | | (56,254) | (1) | (47,655) | (1) |
| 3420 | Financial assets measured at fair value through other comprehensive income - non-current | | (3,251) | - | - | - |
| 3491 | Employees' unearned remuneration | 4 and 6.19 | (35,977) | (1) | (5,160) | - |
| | Total other equity | | (95,482) | (2) | (52,815) | (1) |
| 3xxx | Total Equity | | 2,231,818 | 53 | 2,204,915 | 58 |
| | Total liabilities and equity | | $4,268,520 | 100 | $3,805,845 | 100 |

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

Chairman: Lin, Yan-Shen Manager: Lin, Yan-Shen Accounting Manager: Deng Yuan-Chang

United Orthopedic Corporation
Individual Income Statement
January 1 to December 31, 2018 and 2017

Unit: NT$1,000

| Code | Accounting item | Notes | 2018 Amount | 2018 % | 2017 Amount | 2017 % |
|---|---|---|---|---|---|---|
| 4000 | Operating Revenue | 4 and 6.20 | $1,789,376 | 100 | $1,581,054 | 100 |
| 5000 | Operating costs | 4 and 6.9 | 823,810 | 46 | 668,501 | 42 |
| 5900 | Gross profit | | 965,566 | 54 | 912,553 | 58 |
| 5920 | Realized (unrealized) profits from sales | | (50,872) | (3) | (71,561) | (5) |
| 5950 | Net gross profit | | 914,694 | 51 | 840,992 | 53 |
| 6000 | Operating expenses | | | | | |
| 6100 | Marketing Expense | | 378,851 | 21 | 329,463 | 21 |
| 6200 | Administrative Expense | | 145,778 | 8 | 136,418 | 9 |
| 6300 | R&D Expenses | | 175,268 | 10 | 184,926 | 12 |
| 6450 | Expected credit impairment loss (gain) | 4 and 6.21 | (1,580) | - | - | - |
| | Total operating expenses | | 698,317 | 39 | 650,807 | 42 |
| 6900 | Operating profit | | 216,377 | 12 | 190,185 | 11 |
| 7000 | Non-operating income and expenses | 4 and 6.24 | | | | |
| 7010 | Other income | | 41,245 | 2 | 33,263 | 2 |
| 7020 | Other profit and loss | | 4,316 | - | (9,745) | (1) |
| 7050 | Financial cost | | (15,852) | (1) | (10,758) | (1) |
| 7070 | Shares of profit(loss) of subsidiaries, associates and joint ventures accounted for using the equity method | | (125,494) | (7) | (29,076) | (2) |
| | Total non-operating income and expenses | | (95,785) | (6) | (16,316) | (2) |
| | | | | | | |
| 7900 | Net income before tax | | 120,592 | 6 | 173,869 | 9 |
| 7950 | Income tax gains (expenses) | 4 and 6.26 | 6,962 | - | (43,605) | (3) |
| 8200 | Current period net profit | | 127,554 | 6 | 130,264 | 6 |
| 8300 | Other comprehensive gain or loss | 4 and 6.25 | | | | |
| 8310 | Items that will not be reclassified to profit or loss: | | | | | |
| 8311 | Remeasurement of defined benefit plan | | (1,886) | - | (800) | - |
| 8316 | Unrealized valuation gain (loss) on investments in equity instruments at fair value through other comprehensive income | | (2,819) | - | - | - |
| 8320 | Share of other comprehensive income (loss) of subsidiaries, affiliates, and joint ventures accounted for using equity method - components of other comprehensive income that will not be reclassified to profit or loss | | (432) | - | - | - |
| 8349 | and income taxes relating to profit/loss items not to be reclassified to profit or loss | | - | - | - | - |
| 8360 | Items that may be reclassified to profit or loss | | | | | |
| 8380 | Share of other comprehensive income (loss) of subsidiaries, affiliates, and joint ventures accounted for using equity method - components of other comprehensive income that will be reclassified to profit or loss | | (8,599) | - | (16,035) | (1) |
| 8399 | Income taxes relating to items which may be reclassified to profit or loss | | - | - | - | - |
| | comprehensive income or loss (net value after tax) in this period | | (13,736) | - | (16,835) | (1) |
| 8500 | Total amount of comprehensive profit/loss in the year | | $113,818 | 6 | $113,429 | 5 |
| | | | | | | |
| | Earnings per share (NT$) | 4 and 6.27 | | | | |
| 9750 | Basic earnings per share | | $1.61 | | $1.78 | |
| 9710 | Continuing operations net profit (net loss) | | | | | |
| 9720 | Discontinued operations net profit (net loss) | | | | $2.23 | |
| | Net income (loss) in the current period | | | | | |
| | | | | | | |
| 9850 | Diluted earnings per share | | | | $0.70 | |
| 9810 | Continuing operations net profit (net loss) | | | | | |
| 9800 | Discontinued operations net profit (net loss) | | | | | |
| | Net income (loss) in the current period | | | | | |
| | | | | | | |
| 9850 | Diluted earnings per share | | $1.55 | | $1.75 | |

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

Chairman: Lin Yan-Shen Manager: Lin Yan-Shen Accounting Manager: Deng Yuan-Chang

United Orthopedic Corporation

Individual Statement of Changes in Equity

January 1 to December 31, 2018 and 2017

Unit: NT$1,000

| | | | | Retained earnings | | | Other Equity | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital | Capital reserve | Statutory surplus reserve | Special surplus reserve | Undistributed earnings | Conversion difference of financial statements of foreign operations | Unrealized gains (losses) on financial assets at fair value through other comprehensive income | Employee unearned remuneration | Total equity |
| Code | Item | 3100 | 3200 | 3310 | 3320 | 3350 | 3410 | 3420 | 3491 | 3XXX |
| A1 | Balances on January 1, 2017 | $717,469 | $915,406 | $41,246 | $- | $145,834 | $(31,620) | $- | $(15,173) | 1,773,162 |
| | 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 | 2018 net profit (Note 1) | - | - | - | - | 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 year | - | - | - | - | 129,464 | (16,035) | - | - | 113,429 |
| E1 | Capital increase | 80,000 | 304,000 | - | - | - | - | - | - | 384,000 |
| M7 | Changes in ownership equity of subsidiaries | - | (4,539) | - | - | - | - | - | - | (4,539) |
| N1 | Share-based payment transaction - employee share purchase right | - | 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 |
| A1 | Balance on January 1st, 2018 | $797,129 | $1,243,611 | $55,906 | $31,620 | $129,464 | $(47,655) | $- | $(5,160) | $2,204,915 |
| | Surplus allocation and distribution in 2017 | | | | | | | | | |
| B1 | Appropriate statutory surplus reserve | - | - | 13,026 | - | (13,026) | - | - | - | - |
| B3 | Appropriate statutory surplus reserve | - | - | - | 16,035 | (16,035) | - | - | - | - |
| B5 | Cash dividend of common stock | - | - | - | - | (100,403) | - | - | - | (100,403) |
| C7 | Changes in subsidiaries, affiliates and joint ventures recognized under equity method | - | 1,470 | - | - | - | - | - | - | 1,470 |
| D1 | 2018 net profit (Note 2) | - | - | - | - | 127,554 | - | - | - | 127,554 |
| D3 | Other comprehensive profit/loss in 2018 | - | - | - | - | (1,886) | (8,599) | (3,251) | - | (13,736) |
| D5 | Total amount of comprehensive profit/loss in the year | - | - | - | - | 125,668 | (8,599) | (3,251) | - | 113,818 |
| M7 | Changes in ownership equity of subsidiaries | - | 1,903 | - | - | - | - | - | - | 1,903 |
| N2 | Share-based payment transaction - restricted employee entitlement to new shares | 7,380 | 33,552 | - | - | - | - | - | (30,817) | 10,115 |
| Z1 | Balance on December 31, 2018 | $804,509 | $1,280,536 | $68,932 | $47,655 | $125,668 | $(56,254) | $(3,251) | $(35,977) | $2,231,818 |

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

(Note 1) The Directors and Supervisors' remuneration of NT$6,553 thousand and employees' remuneration of NT$26,212 thousand have been removed from the consolidated income statement.

(Note 2) Directors and Supervisors' remuneration of NT$4,256 thousand and employee remuneration of NT$17,025 thousand have been removed from the consolidated income statement.

Chairman: Lin, Yan-Shen | Manager: Lin Yan-Sheng | Accounting Manager: Deng Yuan-Chang

United Orthopedic Corporation
Individual Statement of Cash Flow
January 1 to December 31, 2018 and 2017

Unit: NT$1,000

| Code | Item | 2018 Amount | 2017 Amount |
|---|---|---|---|
| AAAA | Cash flow from operating activities: | | |
| A10000 | Current net profit before tax | $120,592 | $173,869 |
| A20000 | Adjustment items: | | |
| A20010 | Income/expense items that do not affect cash flow: | | |
| A20100 | Depreciation expenses | 108,239 | 84,000 |
| A20200 | Amortization expense | 8,785 | 8,247 |
| A20300 | Expected credit impairment (gain) loss | -1,580 | 1,580 |
| A20400 | Net losses (gains) on the financial liabilities measured at fair value through profit and loss | 40 | (40) |
| A20900 | Interest Expense | 15,852 | 10,758 |
| A21200 | Interest Income | -1,340 | (1,960) |
| A21900 | Share-based payment remuneration cost | 10,115 | 21,817 |
| A22300 | Recognized shares of loss of subsidiaries, associates and joint ventures accounted for using the equity method | 125,494 | 29,076 |
| A22500 | Loss on disposal of property, plant and equipment | 711 | 458 |
| A24000 | Gain on realized sales | 50,872 | 71,561 |
| A29900 | Other income | -25,473 | (25,474) |
| A30000 | Changes in assets/liabilities related operating activities | | |
| A31130 | (Increase) decrease in notes receivable | -823 | 340 |
| A31150 | Increases in accounts receivable | -54,407 | (25,845) |
| A31160 | Account receivable - increase in related parties | -194,675 | (167,061) |
| A31180 | Decrease (increase) in other receivables | 6,923 | (4,658) |
| A31190 | Other accounts receivable - decreases (increases) of related parties | -1,007 | 23,904 |
| A31200 | Increases in inventories | -98,763 | (137,638) |
| A31220 | Decreases (increases) in prepaid expenses | 4,283 | (1,854) |
| A31240 | Decreases in other current assets | 107 | 93 |
| A32125 | Increase in contract liabilities | 934 | - |
| A32130 | Increases (decreases) in bills payable | -1,767 | 202 |
| A32150 | Increases (decreases) in accounts payable | -21,317 | 36,858 |
| A32160 | Other accounts receivable - Increase (decrease) in stakeholder | -15,683 | 3,479 |
| A32180 | (Decrease) increase in other payables | -18,569 | 36,933 |
| A32190 | Other accounts payable - Increase (decrease) in related parties | -408 | 653 |
| A32230 | Increase in other non-current liabilities | 261 | 338 |
| A32240 | Decreases in net defined benefit liability | -7,141 | (6,427) |
| A33000 | Cash inflow generated by operation | 10,255 | 133,209 |
| A33100 | Interest income received | 1,310 | 1,663 |
| A33,200 | Dividend received | 40,896 | 40,896 |
| A33500 | Income tax paid | -39,386 | (62,248) |
| AAAA | Net cash inflow from operating activities | 13,075 | 113,520 |
| | | | |
| BBBB | Cash flow from investment activities | | |
| B00010 | Financial assets measured at fair value through other comprehensive income | -1,926 | - |
| B00040 | Acquisition of financial assets at amortized cost | -9 | - |
| B00600 | Investment in debt instrument in non-active market | - | (385) |
| B01800 | Acquisition of the investment using equity method | -393,760 | (692,173) |
| B02400 | Proceeds from capital reduction of investee companies accounted for using equity method | 127,627 | - |
| B02700 | Acquisition of property, plant and equipment | -128,309 | (278,032) |
| B02800 | Disposal of real property, plant, and equipment | 111 | 15 |
| B03700 | Increases in refundable deposits | -4,445 | (1,493) |
| B04500 | Intangible assets acquired | -47,680 | (13,217) |
| B06700 | Increase in other non-current assets | - | (7,859) |
| B06800 | Decrease in other non-current assets | 7,859 | - |
| BBBB | Net cash outflow from investing activities | (440,532) | (993,144) |
| | | | |
| CCCC | Cash from financing activities | | |
| C00100 | Increases in short-term loans | 243,619 | 185,000 |
| C00500 | Increases in short-term notes and bills payable | 49,984 | - |
| C00600 | Decrease in short-term bills payables | - | (50,000) |
| C01200 | Corporate bonds issuance | - | 400,000 |
| C01600 | Long-term loans raised | 257,140 | 667 |
| C03000 | Increases in guarantee deposits | 44 | - |
| C04500 | Cash dividend payout | -100,403 | (99,554) |
| C04600 | Capital increase | - | 384,000 |
| C05600 | Interest Paid | -10,147 | (8,496) |
| CCCC | Net cash inflow from financing activities | 440,237 | 811,617 |
| | | | |
| EEEE | Increase in current cash and cash equivalents | 12,780 | (68,007) |
| E00100 | Balance of cash and cash equivalents, beginning of year | 266,901 | 334,908 |
| E00200 | Balance of cash and cash equivalents, End of Year | $279,681 | $266,901 |

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

Chairman: Lin Yan-Shen    Manager: Lin Yan-Shen    Accounting Manager: Deng Yuan-Chang

United Orthopedic Corporation
Notes to individual Financial Statements
For the Years Ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Stated)

## I. Company History

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

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

## II. Approval Date and Procedures of the Financial Statements

The individual financial statements of the Corporation for 2018 and 2017 were authorized for issue by the Board of Directors on March 18, 2019.

## III. Adoption of New and Amended Standards and Interpretations

1. 1. Changes in accounting policies due to the first-time adoption of the International Financial Reporting Standards (IFRSs):

   The Corporation has adopted the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Committee Interpretations (IFRIC) or Interpretations of the Standing Interpretations Committee (SIC) that have been approved by the Financial Supervisory Commission (hereinafter referred to as the FSC) for the fiscal year beginning after January 1, 2018. Except for the nature and effects of the following new standards and interpretations, the first-time adoption of these standards has no significant impact on the Corporation:

   (1) IFRS 15 "Revenue from Contracts with Customers" (including relevant clarifications associated with IFRS 15 "Revenue from Contracts with Customers")

IFRS 15 replaces IAS 11 "Construction Contracts", IAS 18 "Revenue" and relevant interpretations. The Corporation chooses to recognize the cumulative effect of the first-time adoption on the initial application date (i.e. January 1, 2018) in accordance with the transitional provisions of IFRS 15 and to retrospectively apply IFRS 15 to contracts that are not completed on that date.

The Corporation's revenue from contracts with customers mostly involves the sale of goods. The impact of IFRS 15 on the Corporation's recognition of revenue is as follows:

A. Please refer to Note 4 for accounting policies adopted by the Corporation after and prior to January 1, 2018.

B. Prior to January 1, 2018, the Corporation recognizes revenue from the sale of goods when the products are delivered to the customers. For reporting periods starting on or after January 1, 2018, revenue is recognized when the promised products are transferred to the customers and the performance obligation is satisfied under IFRS 15. The adoption of IFRS 15 does not have any material impact on the Corporation's recognition of revenue from the sale of goods. As for contracts where goods are transferred to customers without the Corporation having an unconditional right to receive considerations, contract assets shall be recognized instead of accounts receivables as prior to January 1, 2018. Moreover, contract assets shall be assessed for loss allowance in accordance with IFRS 9 "Financial Instruments". In comparison to the adoption of IAS 18, the Corporation's accounts receivables do not have to be reclassified to contract assets.

C. As for contracts where a part of the considerations is collected upon signing the contracts, the Corporation assumes the obligations to transfer the goods subsequently. Prior to January 1, 2018, the considerations collected in advance are recognized as other current liabilities. After January 1, 2018, they are recognized as contract liabilities in accordance with IFRS 15. The Corporation reclassified NT$936 thousand from other current liabilities to contract liabilities on January 1, 2018. In addition, as of December 31, 2018, other current liabilities decreased by NT$1,870 thousand and contract liabilities increased by NT$1,870 thousand comparing to the adoption of IAS 18.

D. Please refer to Notes 4, 5 and 6 for additional disclosures required by IFRS 15.

(2) (2) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39. In accordance with the transitional provisions of IFRS 9, the Corporation chooses not to restate the comparative periods upon the initial application date (i.e. January 1, 2018). The effects of adopting IFRS 9 are as follows:

A. The Corporation adopts IFRS 9 starting from January 1, 2018 and prior to this date, IAS 39 is used. Please refer to Note 4 for details on accounting policies.

B. In accordance with the transitional provisions of IFRS 9, the business model is assessed and the financial assets are classified into appropriate categories pursuant to IFRS 9 based on the facts and circumstances that exist as of January 1, 2018. The classifications and carrying amounts of those financial assets as of January 1, 2018 are as follows:

| IAS 39 | | IFRS 9 | |
|---|---|---|---|
| Measurement Category | Carrying Amount | Measurement Category | Carrying Amount |
| Measured at fair value through other comprehensive income (FVTOCI) | | Measured at FVTOCI | $2,850 |
| Available-for-sale financial assets (including ones measured at cost of NT$2,850) | $2,850 | | |
| Measured at amortized cost | | Measured at amortized cost (including cash and cash equivalents, notes receivable, accounts receivable, financial assets measured at amortized cost and other receivables) | 6,705 |
| Loans and receivables (including cash and cash equivalents, notes receivable, accounts receivable, investments in debt instrument with no active market and other receivables) | 6,705 | | |
| Total | $9,555 | Total | $9,555 |

C. Detailed information concerning the changes in the classifications of financial assets and financial liabilities for the transition from IAS 39 to IFRS 9 as of January 1, 2018 is as follows:

| IAS 39 | | IFRS 9 | | | | |
|---|---|---|---|---|---|---|
| Account | Carrying Amount | Account | Carrying Amount | Difference | Adjustment on Retained Earnings | Adjustment on Other Equity |
| Available-for-sale financial assets (including initial investment cost of NT$2,850 which is separately listed as measured at cost) (Note 1) | $2,850 | Measured at FVTOCI (equity instruments) | $2,850 | $- | $- | $- |
| Loans and receivables (Note 2) | | | | | | |
| Investments in debt instrument with no active market | 6,705 | Financial assets measured at amortized cost | 6,705 | - | - | - |
| Total | $9,555 | Total | $9,555 | | $- | $- |

Note:

1. Investments classified as available-for-sale financial assets in accordance with IAS 39 include investments in funds, stocks and bonds of listed (OTC) companies and non-listed (OTC) stocks. Details concerning the changes in classification are as follows:

Investments in stocks (both listed (OTC) and non-listed (OTC) stocks)

The assessment is conducted based on the facts and circumstances that exist as of January 1, 2018. As these equity instruments are not held-for-trading, the Corporation chooses to designate them as financial assets at FVTOCI. The amount reclassified from available-for-sale financial assets (including those measured at cost) to financial assets at FVTOCI was NT$2,850 thousand as of January 1, 2018. Other relevant adjustments are as follows:

Impairment was not recognized for the non-listed (OTC) stocks with initial carrying amount of NT$2,850 thousand under IAS 39. However, under IFRS 9, those stocks shall be measured at fair value and the recognition of impairment loss is not required.

2. For items classified as loans and receivables in accordance with IAS 39, their cash flows are solely payments of principal and interest on the outstanding principal. Based on the facts and circumstances that exited as of January 1, 2018, as the business model is assessed to be one that collects contractual cash flows, they are measured at amortized cost. In addition, no adjustment arisen from the impairment assessment conducted in accordance with IFRS 9 on January 1, 2018. Thus, the carrying amount as of January 1, 2018 was not affected. The Corporation merely reclassified investments in debt instruments with no active market of NT$6,705 thousand to financial assets measured at amortized cost (a total of NT$6,705 thousand).

D. Please refer to Notes 4, 5, 6 and 12 for disclosures required by IFRS 7 and IFRS 9.

(3) Disclosure Initiative (Amendments to IAS 7 "Statement of Cash Flows")

A reconciliation between the opening and closing balances for liabilities arising from financing activities of the Corporation is provided. Please refer to Note 12 for disclosures required.

2. The Corporation has not adopted the following new, revised and amended standards or interpretations issued by International Accounting Standards Board (IASB) and endorsed by FSC:

| No. | New, Revised and Amended Standards or Interpretations | Effective Date Announced by IASB |
|---|---|---|
| 1 | IFRS 16 "Leases" | January 1, 2019 |
| 2 | IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| 3 | Amendments to IAS 28 "Investments in Associates and Joint Ventures" | January 1, 2019 |

| | | |
|---|---|---|
| 4 | Prepayment Features with Negative Compensation (Amendments to IFRS 9) | January 1, 2019 |
| 5 | Improvements to IFRSs 2015-2017 cycle | January 1, 2019 |
| 6 | Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) | January 1, 2019 |

(1) IFRS 16 "Leases"

The new standard requires lessees to adopt a single accounting model for all leases except for short-term leases or leases of low value assets, i.e. to recognize right-of-use assets and lease liabilities on the balance sheets, and lease-related depreciation and interest expense on the statements of comprehensive income. Moreover, lessors continue to classify leases as operating or finance leases. However, more extensive disclosure is required.

(2) IFRIC 23 "Uncertainty over Income Tax Treatments"

The interpretation clarifies the application of recognition and measurement requirements under IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

(3) Amendments to IAS 28 "Investments in Associates and Joint Ventures"

The amendments clarify that prior to the adoption of IAS 28, IFRS 9 shall be used to account for the long-term interests that form part of the net investment in the associates or joint ventures. Also, during the application of IFRS 9, adjustments arising from the adoption of IAS 28 shall not be considered.

(4) Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments allow financial assets with prepayment features (parties to the contract may pay or receive reasonable compensation for early termination of the contracts) to be measured at amortized cost or at FVTOCI.

(5) Improvements to IFRS (2015-2017 cycle)

*IFRS 3 "Business Combinations"*

The amendments clarify that when an entity having joint control over a joint operation obtains control of the joint operation, it shall remeasure previously held interests in that business.

*IFRS 11 "Joint Arrangements"*

The amendments clarify that when an entity that participates in (but has no joint control over) a joint operation obtains joint control over the joint operation, it shall not remeasure previously held interests in that business.

*IAS 12 "Income Taxes"*

The amendments clarify that entities shall recognize income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on how the originating transaction or event that has given rise to the dividends is recognized.

*IAS 23 "Borrowing Costs"*

The amendments clarify that when an asset is ready for its intended use or sale, the entity shall treat borrowings related specifically to the acquisition of such an asset as general borrowings.

(6) Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that when changes occurred to the defined benefit plan (e.g. amendment, curtailment or settlement), entities shall remeasure the net defined benefit liability or asset using the updated assumptions.

The abovementioned new, revised and amended standards or interpretations are issued by IASB and endorsed by FSC to take effect from January 1, 2019. Except for (1) with effects listed below, the adoption of these new, revised and amended standards and interpretations will not have a significant effect on the Corporation:

(1) IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease". The effect of IFRS 16 on the Corporation is as follows:

A. For definition of leases, the Corporation adopts the transitional provisions of IFRS 16 and elects not to reevaluate whether contracts are (or contain) leases on the initial application date (i.e. January 1, 2019). Contracts previously identified as leases under IAS 17 and IFRS 4 are now subject to IFRS 16. For contracts previously identified as not containing leases under IAS 17 and IFRS 4, IFRS 16 does not apply.

As a lessee, the Corporation elects not to restate the comparative information in accordance with the transitional provisions of IFRS 16 and recognizes cumulative effect of initial application as an adjustment to the opening balance of retained earnings (or other component of equity, if appropriate) on January 1, 2019.

<u>Leases classified as operating lease</u>

The Corporation plans to measure leases classified as operating leases under IAS 17 by the present value of remaining lease payments (discounted using the incremental borrowing rate of lessee as of January 1, 2019) and recognize lease liabilities on January 1, 2019. In addition, the right-of-use assets are measured and recognized on a lease-by-lease basis using one of the following amounts:

i. the carrying amount of the right-of-use assets as if IFRS 16 has applied since the beginning of leases. However, the amount shall be discounted by the incremental borrowing rate of lessee as of January 1, 2019, or

ii. the amount of lease liabilities, adjusted for all prepaid or accrued lease payments associated with the leases (recognized in the balance sheet immediately before January 1, 2019).

The Corporation's right-of-use assets and lease liabilities are expected to increase by NT$149,399 thousand and NT$149,399 thousand, respectively, on January 1, 2019.

B. The Corporation provides additional disclosures in accordance with the lessee and lessor provisions of IFRS 16.

3. As of the date of issuance of the financial statements, the Corporation has not adopted the following new, revised and amended standards or interpretations issued by IASB and but not yet endorsed by FSC:

| No. | New, Revised and Amended Standards or Interpretations | Effective Date Announced by IASB |
|---|---|---|
| 1 | Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined by the IASB |
| 2 | IFRS 17 "Insurance Contracts" | January 1, 2021 |
| 3 | Amendments to IFRS 3 "Business Combinations" | January 1, 2020 |
| 4 | Definition of Material (Amendments to IAS 1 and IAS 8) | January 1, 2020 |

(1) Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The plan deals with the inconsistency between IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" in relation to the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 states that when non-monetary assets are contributed in exchange for an interest in an associate or a joint venture, the share of gains or losses shall be eliminated in accordance with the treatments of a downstream transaction. However, IFRS 10 requires a full recognition of gains or losses arising from the loss of control of a subsidiary. The amendments place restrictions on the above-mentioned rules of IAS 28 so that gains or losses shall be recognized in full for sale or contribution of assets that constitute a business as defined in IFRS 3.

The amendments also change IFRS 10 so that gains or losses arising from the sale or contributions of a subsidiary, that does not constitute a business as defined in IFRS 3, between an investor and its associate or joint venture are recognized only to the extent of their shares owned by non-investors.

(2) IFRS 17 "Insurance Contracts"

This standard provides a comprehensive model for insurance contracts, including all accounting-related parts (i.e. principles of recognition, measurement, presentation and disclosure). The core of the standard is the general model. Under this model, the Corporation measures a Corporation of insurance contracts at the total of fulfilment cash flows and contractual service margin upon initial recognition. The fulfilment cash flows include:

1. 1. Estimates of future cash flows;
2. 2. Discount rate: an adjustment that reflects the time value of money and the financial risks associated with future cash flows (where the financial risks are not included in the estimates of future cash flows); and
3. 3. Risk adjustment for non-financial risks.

The carrying amount of the group of insurance contracts at the end of each reporting period is the sum of the liability for remaining coverage and the liability for claims incurred.

In addition to the general model, it also provides the following:

1. 1. Specific applicable method for contracts with direct participation features (variable fee approach); and
2. 2. Simplified short-term contract method (premium allocation approach)

(3) Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business under IFRS 3 "Business Combinations", assisting enterprises in identifying whether a transaction shall be accounted for as a business combination or acquisition of assets. IFRS 3 continues to adopt market participants' perspective in determining whether the activities or assets acquired are considered a business. Actions taken include clarifying the minimum requirements of a business, adding guidance to help enterprises assessing whether the acquisition process is substantive, and narrowing the definitions of a business and outputs.

(4) Definition of Material (Amendments to IAS 1 and IAS 8)

Material information is redefined to be: if it can be reasonably expected that the omission, misstatement or obscurity of such information would have effect on decisions made by primary users of general-purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. Enterprises shall determine whether the information, either individually or combined with other information, is material in the financial statements. If information can be reasonably expected to have effect on primary users, the misstatement of such information is considered material.

Aforementioned are standards or interpretations which have been published by IASB, but not yet endorsed by the FSC. The actual application dates will be set by the FSC. Except for the new, revised and amended standards or interpretations as per Point (1) which are currently assessed by the Corporation for their potential effects and the impacts of aforementioned standards or interpretations on the Corporation cannot be reasonably estimated for now, other new, revised and amended standards or interpretations do not have significant impact on the Corporation.

## IV. Summary of Significant Accounting Policies

### 1. Statement of compliance

The individual financial statements for the years ended December 31, 2018 and 2017 have been prepared in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers."

### 2. Basis of preparation

The individual financial statements have been prepared in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers." In accordance with Article 21 of the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," the profit or loss and other comprehensive income of the period presented in individual financial reports shall be the same as the share of profit or loss and other comprehensive income attributable to owners of the parent presented in the consolidated financial statements, and the owners' equity presented in the individual financial statements shall be the same as the equity attributable to owners of the parent presented in the consolidated financial statements. Therefore, investments in subsidiaries are expressed as "investments accounted for using the equity method" in the individual financial statements with evaluation adjustments, if needed.

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

### 3. Foreign currency transactions

The Corporation's individual financial statements are presented in New Taiwan Dollars, which is the Corporation's functional currency.

Transactions in foreign currencies are initially recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the closing rates of that date; non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value is determined; and non-monetary items measured at historical cost that are denominated in foreign currencies are retranslated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement or translation of monetary items are recognized in profit or loss in the period in which they arise, except for the following:

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

(2) Foreign currency items within the scope of IFRS 9 "Financial Instruments" (prior to January 1, 2018: IAS 39) are accounted for based on the accounting policies for financial instruments.

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

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

4. Translation of foreign-currency financial statements

Each foreign operation in the Corporation may determine its functional currency, and use it to measure its financial statements. In the preparation of individual financial statements, the assets and liabilities of foreign operations are translated into New Taiwan Dollars using the closing rates at the reporting date and income and expense items are translated at the average exchange rates for the period. The exchange differences arising on the translation are recognized in other comprehensive income. Upon disposal of the foreign operations, the cumulative exchange differences recognized in other comprehensive income and accumulated in the separate component of equity are reclassified from equity to profit or loss when recognizing the gain or loss on disposal. The loss of control, significant influence or joint control over a foreign operation while retaining partial equity is accounted for as disposals.

On the partial disposal of a subsidiary that includes a foreign operation while retaining control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is adjusted via "investments accounted for using the equity method" instead of being recognized in profit or loss. In partial disposal of an associate or a joint-controlled equity that includes a foreign operation while retaining significant influence or joint control, the proportionate share of the cumulative amount of the exchange differences is reclassified to profit or loss.

Goodwill arising from the acquisition of a foreign operation and fair value adjustments on the carrying amounts of assets and liabilities of such an acquisition are deemed as assets and liabilities of the foreign operation and expressed in the functional currency of the foreign operation.

5. Classification of current and non-current assets and liabilities

An asset is classified as current when it meets the following conditions, and all other assets are classified as non-current:

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

A liability is classified as current when it meets the following conditions, and all other liabilities are classified as non-current:

(1) The Corporation expects to settle the liability in its normal operating cycle.
(2) The Corporation holds the liability primarily for the purpose of trading.
(3) The liability is due to be settled within twelve months after the reporting period.

(4) The Corporation does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

6. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including time deposits with terms equal to or less than twelve months).

7. Financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities within the scope of IFRS 9 "Financial Instruments" (prior to January 1, 2018: IAS 39) are recognized initially at fair value plus or minus transaction costs that are directly attributable to the acquisition or issuance of the financial assets or financial liabilities, except for financial assets and financial liabilities at fair value through profit or loss (FVTPL).

(1) Recognition and measurement of financial assets

**Accounting treatment starting from January 1, 2018 is as follows:**

The Corporation accounts for regular way recognition or derecognition of financial assets on the trade date basis.

The Corporation classifies financial assets as subsequently measured at amortized cost, at FVTOCI or at FVTPL based on the following two conditions:

A. Business model for managing the financial assets, and
B. Contractual cash flow characteristics of the financial assets

Financial assets measured at amortized cost

A financial asset satisfying both conditions below is measured at amortized cost and presented as notes receivables, accounts receivables, financial assets measured at amortized cost and other receivables on the balance sheet:

A. Business model for managing the financial assets: the financial asset is held to collect its contractual cash flows, and
B. Contractual cash flow characteristics of the financial assets: cash flows are solely payments of principal and interest on the outstanding principal.

These financial assets (excluding ones involved in a hedging relationship) are subsequently measured at amortized cost {the amount initially recognized less principal repayments, plus or minus the cumulative amortization of the difference between the initial amount and the maturity amount (calculated using the effective interest method), and adjusted for loss allowance}. A gain or loss is recognized in profit or loss when the financial asset is derecognized, going through the amortization process or recognizing the impairment gains or losses.

Interest calculated by the effective interest method (applying the effective interest rate to the gross carrying amount of financial assets) or under one of the follow situations is recognized in profit or loss:

A. For purchased or originated credit-impaired financial assets, interest is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial assets.
B. For financial assets that do not belong to the former category but subsequently have become credit-impaired, interest is calculated by applying the effective interest rate to the amortized cost of the financial assets.

Financial assets at FVTOCI

A financial asset satisfying both conditions below is measured at FVTOCI and presented as financial assets at FVTOCI on the balance sheet:

A. Business model for managing the financial assets: the financial asset is held to collect its contractual cash flows and for sale, and
B. Contractual cash flow characteristics of the financial assets: cash flows are solely payments of principal and interest on the outstanding principal.

Recognition of gain or loss on such a financial asset is described below:

A. Prior to its derecognition or reclassification, the gain or loss on a financial asset at FVTOCI is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains or losses, which are recognized in profit or loss.
B. Upon derecognition, the cumulative gain or loss previously recognized in other

comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

C. Interest calculated by the effective interest method (applying the effective interest rate to the gross carrying amount of financial assets) or under one of the follow situations is recognized in profit or loss:

(a) For purchased or originated credit-impaired financial assets, interest is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial assets.

(b) For financial assets that do not belong to the former category but subsequently have become credit-impaired, interest is calculated by applying the effective interest rate to the amortized cost of the financial assets.

In addition, for an equity instrument within the scope of IFRS 9 that is not held for trading and the contingent consideration recognized by an acquirer in a business combination under IFRS 3 does not apply, the Corporation makes an (irrevocable) election at initial recognition to present its subsequent changes in the fair value in other comprehensive income. Amounts presented in other comprehensive income cannot be subsequently transferred to profit or loss (upon disposal of such equity instrument, its cumulative amount in other equity is transferred directly to retained earnings) and shall be recognized as a financial asset measured at FVTOCI on the balance sheet. Dividends from the investment are recognized in profit or loss unless they clearly represent the recovery of a part of the investment cost.

Financial assets at FVTPL

Except for financial assets that are measured at amortized cost or at FVTOCI due to the satisfaction of certain conditions, all other financial assets are measured at FVTPL and presented as financial assets at FVTPL on the balance sheet.

Those financial assets are measured at fair value and the gains or losses resulting from their remeasurement are recognized in profit or loss, which include dividends or interests received on such financial assets.

**Accounting treatment prior to January 1, 2018 is as follows:**

The Corporation accounts for regular way recognition or derecognition of financial assets on the trade date basis.

Financial assets of the Corporation are classified as financial assets at FVTPL, held-to-maturity investments, available-for-sale financial assets, and loans and receivables. The Corporation determines the classification of its financial assets at initial recognition based on their natures and purposes.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition as at FVTPL.

A financial asset is classified as held for trading if:

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

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at FVTPL; or a financial asset may be designated as at FVTPL upon initial recognition when doing so results in more relevant information, because either:

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

Those financial assets are measured at fair value with gains or losses arising from remeasurement recognized in profit or loss. Those gains and losses include dividends or interests (including those received during the period of initial investment) on those financial assets.

If those financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

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

Exchange differences resulting from changes in the carrying amount of available-for-sale monetary financial assets, interest income calculated using the effective interest method relating to available-for-sale financial assets and dividends on an available-for-sale equity instrument are recognized in profit or loss. All other changes in the carrying amount of available-for-sale financial assets are recognized in equity until the investment is derecognized, at which time the cumulative gain or loss under equity is reclassified to profit or loss.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and meet the following conditions: not classified as at FVTPL, not designated as available-for-sale, or not those for which the holder may not recover substantially all of its initial investment due to credit worsening.

Loans and receivables are separately presented on the balance sheet as receivables or bond investments with no active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and transaction costs. Amortization calculated using the effective interest method is recognized in profit or loss.

(2) Impairment of financial assets

**Accounting treatment starting from January 1, 2018 is as follows:**

The Corporation recognizes and measures the loss allowance for debt instrument investments at FVTOCI and financial assets measured at amortized cost at an amount equal to expected credit losses. The loss allowance on debt instrument investments at FVTOCI is recognized in other comprehensive income and does not reduce the carrying amount of the investments.

The Corporation measures expected credit loss in a way that reflects:

A. An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
B. Time value of money; and
C. Reasonable and supportable information about past events, current conditions and forecasts of future economic conditions (that is available without undue cost or effort at the balance sheet date)

Loss allowance is measured as follows:

A. At an amount equal to 12-month expected credit losses: including financial assets whose credit risk has not increased significantly since initial recognition or ones that are determined to have low credit risk at the balance sheet date. In addition, financial assets whose loss allowance is measured at an amount equal to lifetime expected credit losses in the previous reporting period, but the condition of a significant increase in credit risk since initial recognition is no longer met at the current balance sheet date shall also be included.
B. At an amount equal to lifetime expected credit losses: including financial assets whose credit risk has increased significantly since initial recognition or purchased or originated credit-impaired financial assets.
C. For accounts receivables or contract assets arising from transactions within the scope of IFRS 15, the Corporation measures the loss allowance at an amount equal to lifetime expected credit losses.

At each balance sheet date, the Corporation assesses whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default at the reporting date and initial recognition. Please refer to Note 12 for further details on credit risk.

**<u>Accounting treatment prior to January 1, 2018 is as follows:</u>**

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset other than the ones at FVTPL is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has a negative impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss.

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

Other loss events may include:

A. Significant financial difficulty of the issuer or counterparty; or
B. Breach of contract, such as a default or delinquency in interest or principal payments; or
C. It becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
D. The disappearance of an active market for the financial asset due to financial difficulties of the issuer.

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

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

For equity instruments classified as available-for-sale, the impairment amount recognized is the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss, and it shall be reclassified from equity to profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in the fair value after impairment are recognized directly in equity.

For debt instruments classified as available-for-sale, the impairment amount recognized is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the effective interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss shall be reversed through profit or loss.

(3) Derecognition of financial assets

Financial assets held by the Corporation are derecognized when one of the following conditions applies:

A. The contractual rights to the cash flows from the financial asset expire.
B. The Corporation has transferred substantially all the risks and rewards of ownership of the asset to another party.
C. The Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(4) Financial liabilities and equity instruments

Classification between liabilities and equity

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

Equity instruments

An equity instrument is any contract of the Corporation that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Corporation are recognized at the proceeds received, net of direct issuance costs.

Compound instruments

The Corporation evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Corporation assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the host contract before separating the equity element.

For liability component excluding derivatives, its fair value is determined based on the market interest rate of an equivalent non-convertible bond. This component is classified as a financial liability measured at amortized cost before the instrument is converted or settled. For the embedded derivative that is not closely related to the economic characteristics and risks of the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal to the amortized cost of the debt instrument on each exercise date), it is classified as a liability component and subsequently measured at FVTPL unless it qualifies for an equity component. The equity component is determined as the residual amount after deducting from the fair value of the convertible bond the amount of the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IFRS 9 (prior to January 1, 2018: IAS 39).

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instrument is initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of its liability component is adjusted to the carrying amount as of the conversion date to be the recognition basis for the issuance of common stocks.

Financial liabilities

Financial liabilities within the scope of IFRS 9 (prior to January 1, 2018: IAS 39) are classified as financial liabilities at FVTPL or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated as at FVTPL.

A financial asset is classified as held for trading if:

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

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at FVTPL; or a financial liability may be designated as at FVTPL upon initial recognition when doing so results in more relevant information, because either:

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

Gains or losses on the remeasurement of those financial liabilities, including interest paid, are recognized in profit or loss.

Prior to January 1, 2018, if those financial liabilities do not have quoted prices in an active market and their fair value cannot be reliably measured, they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include payables and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Relevant gains or losses and amortization amounts are recognized in profit or loss when the liabilities are derecognized and amortized through the effective interest rate method.

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

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

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

(5) Offsetting of financial assets and liabilities

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

8. Derivative financial instruments

The Corporation uses derivative instruments held or issued to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at FVTPL except for derivatives that are designated effective hedging instruments which are classified as derivative assets or liabilities for hedging.

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

Prior to January 1, 2018, derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at FVTPL. However, after January 1, 2018, the aforementioned requirements continue to apply to the host contracts that are financial liabilities or non-financial assets.

9. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes the transaction of selling an asset or transferring a liability takes place in one of the following markets:

(1) The primary market for the asset or liability; or
(2) If there is no primary market, the most advantageous market for the asset or liability

The principal or most advantageous markets shall be the ones that the Corporation have access to and can transact in.

Assumptions that market participants would use when pricing the asset or liability are used in the fair value measurement. Market participants are assumed to act in their economic best interest.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation adopts valuation technique which is appropriate and has sufficient data under the circumstances for fair value measurement. The use of relevant observable inputs is maximized and the use of unobservable inputs is minimized.

10. Inventories

Inventories are valued at the lower of cost or net realizable value item by item.

Costs refer to costs incurred in bringing each inventory to its available-for-sale or available-for-production status and location. They are accounted for as follows:

Raw materials – Actual purchase cost, adopting the weighted average method.

Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs.

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

From January 1, 2018, the provision of labor is handled in accordance with IFRS 15. It is not within the scope of inventory.

11. Investments accounted for using the equity method

The Corporation's investments in subsidiaries are accounted for as "investments accounted for using the equity method" with evaluation adjustments, if needed, pursuant to Article 21 of the "Regulations Governing the Preparation of Financial Reports by Securities Issuers." The adjustments are made so that the profit or loss and other comprehensive income of the period presented in individual financial reports are the same as the share of profit or loss and other comprehensive income attributable to owners of the parent presented in the consolidated financial statements, and the owners' equity presented in the individual financial statements are the same as the equity attributable to owners of the parent presented in the consolidated financial statements. Those adjustments mainly take into account the accounting treatments for investments in subsidiaries in the consolidated financial statements under IFRS 10 "Consolidated Financial Statements" and the difference in IFRSs adoption by different reporting entities. The Corporation debits or credits "investments accounted for using the equity method", "share of profit or loss of subsidiaries, associates and joint ventures accounted for using the equity method" or "share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method".

The Corporation's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as assets held for sale. An associate is an entity over which the Corporation has significant influence.

Under the equity method, the investment in the associates is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Corporation's share of net assets of the associates. After the carrying amount and other related long-term interests in associates are reduced to zero under the equity method, additional losses and liabilities are recognized only to the extent that the Corporation has incurred legal or constructive obligations or made payments on behalf of the associates. Unrealized gains and losses resulting from transactions between the Corporation and the associates are eliminated to the extent of the Corporation's interest in the associates.

When changes in the ownership interest of associates are not caused by profit or loss and other comprehensive income items and do not affect the Corporation's ownership percentages in those entities, the Corporation recognizes all changes in ownership interest based on its ownership percentage. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associates on a pro rata basis.

When the associates issue new shares and the Corporation's shares in the net assets of those entities has changed as a result of failing to acquire shares newly issued in proportion to its original ownership interest, the changes are adjusted through "capital surplus" and "investments accounted for using the equity method". When the interest in the associates is reduced, relevant items previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate accounts by the reduced percentage. The aforementioned capital surplus recognized shall be reclassified to profit or loss upon the disposal of the associates on a pro rata basis.

The financial statements of the associates are prepared for the same reporting period as the Corporation. Where necessary, adjustments are made to bring the accounting policies in line with those of the Corporation.

The Corporation determines at each reporting date whether there is any objective evidence indicating that its investment in the associates or joint ventures is impaired in accordance with IAS 28 "Investments in Associates and Joint Ventures" (prior to January 1, 2018: IAS 39). If there is objective evidence of impairment, the Corporation calculates the amount of impairment as the difference between the recoverable amount of the associate or joint ventures and their carrying value and recognizes it in the share of profit or loss of associates or joint ventures in accordance with IAS 36 "Impairment of Assets". If the investment's value in use is adopted as the recoverable amount, the Corporation determines the value in use based on the following estimates:

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

Because goodwill that forms part of the carrying amount of the investment in associates is not separately recognized, the impairment test on goodwill of IAS 36 "Impairment of Assets" does not apply.

Upon loss of significant influence over the associates, the Corporation measures and recognizes the retaining investment at its fair value. The difference between the carrying amount of the associates upon loss of significant influence and the fair value of the retaining investment plus proceeds from disposal is recognized in profit or loss.

The Corporation's investments in joint-controlled entities are also accounted for using the equity method, other than those classified as held-for-sale assets. Joint-controlled entities refer to companies, partnerships or other entities whose establishment involves the Corporation and the Corporation has joint control over.

12. Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and necessary borrowing costs for construction in progress. Each part of property, plant and equipment that is significant is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Corporation recognizes such parts separately as individual assets with specific useful lives and depreciation methods. The carrying amount of those parts is derecognized in accordance with the provisions of IAS 16 "Property, Plant and Equipment." When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement cost if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

| | |
|---|---|
| Buildings | 3 to 50 years |
| Machinery and equipment | 10 to 15 years |
| Tooling equipment (except for forging die) | 3 to 5 years |
| Transportation equipment | 5 years |
| Information equipment | 3 to 5 years |
| Other equipment | 3 to 10 years |
| Leasehold improvements | Over the shorter of the lease terms or useful lives |

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

The residual values, useful lives and depreciation methods of property, plant and equipment are reviewed at the end of each financial year. If the expected values differ from the estimates, the differences are recorded as a change in accounting estimate.

13. Leases

The Corporation being a lessee

A finance lease transfers substantially all of the risks and rewards associated with the underlying asset's ownership to the Corporation and on the commencement date of the lease period, the lower of the fair value of lease assets or the present value of minimum lease payments is capitalized. Rent payments are allocated to financing expense and decreases in lease liabilities. The financing expense is determined by the balance of residual liabilities at a fixed interest rate and recognized in profit or loss.

Lease assets are depreciated over the assets' useful lives. However, if it cannot be reasonably certain that the Corporation will obtain the ownership of the assets at the end of lease term, depreciation is recognized over the shorter of the assets' useful lives or lease term.

Lease payments under operating leases are recognized as expenses on a straight-line basis during the lease term.

The Corporation being a lessor

Leases where the Corporation does not transfer substantively all of the risks and rewards of the underlying assets' ownership are classified as operating leases. Initial direct costs arising from setting up the operating leases are recognized as an addition to the carrying amount of lease assets and on the same basis as rent income during the lease term. Rent income from operating leases are accounted for on a straight-line basis over the lease term. Contingent rents are recognized as income as earned.

14. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, which fail to meet the recognition criteria, are not capitalized. They are recognized in profit or loss as incurred.

The useful lives of intangible assets are categorized as either finite or indefinite.

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

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. Intangible assets with indefinite life are reviewed at each reporting period to determine whether there are events and circumstances continuing to support the classification of indefinite life. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss.

Intangible assets under development – research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when they meet the following conditions:

(1) The intangible asset under development has achieved technical feasibility and is available for use or sale.
(2) The Corporation intends to complete the asset and has the ability to use or sell the asset.
(3) The asset will generate future economic benefits.
(4) There are sufficient resources to complete the asset.
(5) Expenditures during the development stage can be reliably measured.

Following initial recognition of the capitalized development expenditure, the cost model is applied, i.e. the asset is required to be carried at cost less any accumulated amortization and accumulated impairment losses. During the development period, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

Technical skill

Technical skills are granted 15 years of right-of-use and amortized on a straight-line basis.

Computer software

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

The Corporation's accounting policies for intangible assets are summarized as follows:

| | Intangible assets under development | Technical skill | Computer software |
|---|---|---|---|
| Useful life | Finite | Finite | Finite |
| Amortization method | Amortized on a straight-line basis over the forecast sales period for the related projects | Amortized on a straight-line basis over the estimated useful life | Amortized on a straight-line basis over the estimated useful life |
| Internal production or | Internal production | External acquisition | External acquisition |

external acquisition

15. Impairment of non-financial assets

The Corporation assesses whether there is any indication that an asset in the scope of IAS 36 "Impairment of Assets" may be impaired at the end of each reporting period. If any such indication exists, or when annual impairment testing for an asset is required, the Corporation would conduct impairment tests at individual or CGU level. Where the carrying amount of an asset or its CGU exceeds its recoverable amount, the asset is considered impaired. An asset's recoverable amount is the higher of an asset's net fair value or its value in use.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

A CGU, or groups of CGUs, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of goodwill, then to the other assets pro rata based on the carrying amount of each asset. Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

Impairment loss or reversals of continuing operations are recognized in profit or loss.

16. Revenue recognition

**Accounting treatment starting from January 1, 2018 is as follows:**

The Corporation's revenue from contracts with customers mostly involves the sale of goods. The accounting treatment is detailed as follows:

Sale of goods

The Corporation manufactures and sells goods. Revenues are recognized when goods have been delivered to the customers and customers have obtained control (i.e. the customers can direct the use of goods and obtain substantially all remaining benefits from the goods). The main products of the Corporation are orthopedic implants, etc. Revenues are recognized based on the prices stated on the contracts.

The credit terms of accounts receivable are set at 60 to 180 days. Accounts receivables are recognized when the control over goods is transferred and the Corporation has an unconditional right to collect the considerations. Those accounts receivables usually have a short collection period and do not have a significant financing component. As for contracts where goods are transferred to customers without the Corporation having an unconditional right to receive considerations, contract assets shall be recognized. Contract assets shall be assessed for loss allowance at an amount equal to lifetime expected credit losses in accordance with IFRS 9. As for contracts where a part of the considerations is collected upon signing the contracts, the Corporation assumes the obligations to transfer the goods subsequently. Thus, they are recognized as contract liabilities.

As it usually takes less than one year for the said contract liabilities to be reclassified to revenue, no significant financing component has arisen.

**Accounting treatment prior to January 1, 2018 is as follows:**

Revenue is recognized when it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The criteria and methods for revenue recognition are as follows:

Sale of goods

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

Interest income

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

Dividend income

Dividend income is recognized when the Corporation's right to receive the payment is established.

17. Post-employment benefit plans

The post-employment regulations of the Corporation are applicable to all regular employees hired through official procedures. The retirement fund is managed by the Supervisory Committee of Labor Retirement Reserve and deposited in the specific account for the retirement fund. As the aforementioned pension is deposited in the name of the Supervisory Committee of Labor Retirement Reserve, it is not associated with the Corporation. Therefore, it is not included in the individual financial statements.

For post-employment benefit plan that is classified as a defined contribution plan, the Corporation's monthly contribution rate for employees' pension shall not be lower than 6% of employees' monthly salary. The contribution amount is recognized as an expense as incurred.

For post-employment benefit plan that is classified as a defined benefit plan, the Projected Unit Credit Method is adopted to measure the obligations and costs based on actuarial report at the end of annual reporting period. The remeasurements of net defined benefit liability (asset) include return on plan assets and any changes in the effect of the asset ceiling, and exclude amounts included in the net interest on the net defined benefit liability (asset) and actuarial gains and losses. The remeasurements of net defined benefit liability (asset) are recognized in other comprehensive income in the periods they occur and immediately recognized in the retained earnings. Past service cost is the change in the present value of defined benefit obligation due to plan amendments or curtailments. It is recognized as an expense at the earlier of the following two dates:

(1) When a plan amendment or curtailment occurs; and
(2) The date when the Corporation recognizes any related restructuring costs or termination benefits.

Net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the discount rate. Both net defined benefit liability (asset) and discount rate are determined at the beginning of annual reporting period.

Changes in net defined benefit liability (asset) due to actual contributions and benefits paid during the period shall be taken into consideration.

18. Share-based payment transactions

The cost of equity-settled transactions between the Corporation and its employees is recognized based on the fair value of the equity instruments on the grant date. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the service conditions and performance are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Corporation's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative cost recognized for share-based payment transactions as at the beginning and end of that period is recognized as profit or loss for the period.

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

Where the terms of equity-settled transactions are modified, the minimum expense recognized is the cost of original awards as if they were not modified. Additional equity-settled transaction costs are recognized where the modifications on the terms of the share-based payment transactions increase the total fair value of the share-based payment transactions or are beneficial to the employees.

Where equity-settled awards are cancelled, they are deemed as fully vested on the cancellation date, and the unrecognized remaining share-based payment expenses, including awards where non-vesting conditions within the control of the entity or employees are not met, shall be recognized immediately. However, if the awards cancelled are substituted by new awards which are designated as replacement award on the grant date, the cancelled and new awards are deemed as modifications to the original awards.

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

For the issuance of restricted stock awards, salary expenses are recognized based on the fair value of equity instruments on the grant date, together with a corresponding increase in equity over the vesting period. The Corporation recognized unearned employee salary, which is a transitional account, on the grant date as a deduction to equity on the consolidated balance sheet and the amount in the account will be reclassified to salary expenses over the passage of vesting period.

19. Income tax

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

<u>Current income tax</u>

Current income tax liabilities (assets) for the current and prior periods are measured based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity respectively, instead of in profit or loss.

The 10% income tax for undistributed earnings is recognized as income tax expense in the year when the distribution proposal is approved by the shareholders' meeting.

<u>Deferred income tax</u>

Deferred income tax is the temporary difference between the tax bases of assets and liabilities and their carrying amounts in balance sheet at the reporting date.

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

(1) Where the taxable temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (loss);
(2) Where the taxable temporary differences are associated with investments in subsidiaries, associates and joint ventures and the timing of its reversal can be controlled; and it is probable that the temporary differences will not be reversed in

the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, any unused tax losses and carryforward of unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

(1) Where the deferred income tax asset is related to the deductible temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

(2) Where the deferred income tax asset is related to the deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. The deferred income tax asset is recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred income tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred income tax relating to items recognized outside profit or loss cannot be recognized as profit or loss. Instead, it is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred income tax assets are reassessed and recognized at each reporting date.

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

## V. Significant Accounting Judgments, Estimates and Assumptions

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

1. Judgements

In the process of adopting the Corporation's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognized in the financial statements:

Judgement on whether development expenditures are eligible for capitalization

The Corporation determines whether the intangible asset developed and produced internally has achieved technical feasibility and will be available for use or sale mainly due to the Corporation's judgements, which are made based on the facts that the Corporation has controlled the sophisticated technology as well as resources required for the research and development projects, and the development schedule along with product specifications are confirmed. In addition, the Corporation evaluates whether the asset is expected to generate future economic benefits and whether the benefits will be greater than the cost of the relevant investments.

Only when the research and development project meets the aforementioned conditions would the Corporation reclassify development expenditures attributable to the project to intangible assets under development.

2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may result in significant risks for a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below:

(1) Inventory valuation

The estimates of net realizable value for inventory take into account inventory spoilage, total or partial obsolescence or selling price declines. They are based on the most reliable evidence available when those estimates are made. Please refer to Note 6 for details.

(2) Post-employment benefit plans

The defined benefit cost and the present value of defined benefit obligation within the post-employment benefit plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the discount rates and expected future salary changes. The assumptions used for measuring defined benefit cost and defined benefit obligation are disclosed in Note 6.

(3) Share-based payment transactions

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

(4) Income tax

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

Deferred income tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred income tax assets to be recognized is based upon the likely timing and the level of future taxable income and taxable temporary differences together with future tax planning strategies. Deferred income tax assets unrecognized by the Corporation as of December 31, 2018 are disclosed in Note 6.

VI. Important Accounting Items

1. Cash and cash equivalents

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Cash on hand | $709 | $124 |
| Checks and demand deposits | 145,798 | 169,941 |
| Time deposits | 133,130 | 96,836 |
| Deposits in transit | 44 | - |
| Total | $279,681 | $266,901 |

2. Financial assets at fair value through profit and loss (FVTPL)

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Mandatorily measured at FVTPL: | | |
| Convertible corporate bond with embedded derivative instruments | $40 | (Note) |
| Held for trading: | | |
| Convertible corporate bond with embedded derivative financial instruments | (Note) | $80 |
| Total | $40 | $80 |
| Non-current | $40 | $80 |

Note: The Corporation has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

Financial assets at FVTPL were not pledged.

3. Financial assets at fair value through other comprehensive income (FVTOCI)

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Investments in equity instruments at FVTOCI - non-current: | | |
| Unlisted stocks | | |
| Changgu Biotech Corporation | $1,957 | (Note) |
| Net | $1,957 | (Note) |

Note: The Corporation has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

(1) Financial assets at FVTOCI were not pledged.

(2) As of December 31, 2018, the investment in Changgu Biotech Corporation was NT$4,776 thousand, acquiring 477,568 shares, and the shareholding ratio was 19.26%.

4. Financial assets measured at amortized cost

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Time deposits | $6,714 | (Note) |
| Less: Loss allowance | - | (Note) |
| Total | $6,714 | (Note) |
| Non-current | $6,714 | (Note) |

Note: The Corporation has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

The Corporation classifies certain financial assets as financial assets measured at amortized cost. Please refer to Note 6(21), Note 8 and Note 12 for more details on allowance for impairment loss, pledge, and credit risk disclosures, respectively.

5. Financial assets measured at cost - non-current

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Available-for-sale financial assets - stocks | (Note) | $2,850 |

Note: The Corporation has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

(1) Prior to January 1, 2018, the above investments in unlisted entities were accounted for using IAS 39. Their fair value cannot be reliably measured as the variability in the range of reasonable fair value measurements is significant and the probabilities of the various estimates within the range cannot be reasonably assessed. Therefore, these investments are measured at cost.

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

6. Bond investments with no active market

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Time deposits | (Note) | $6,705 |
| Non-current | (Note) | $6,705 |

Note: The Corporation has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

Prior to January 1, 2018, the Corporation classified certain financial assets as bond investments with no active market under IAS 39. Please refer to Note 8 for more details on the aforementioned bond investments pledged.

7. Notes receivable

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Notes receivable - arising from operation | $3,735 | $2,912 |
| Less: Loss allowance | - | - |
| Total | $3,735 | $2,912 |

Notes receivables were not pledged.

The Corporation has adopted IFRS 9 since January 1, 2018 to evaluate impairment loss. Please refer to Note 6(21) and Note 12 for more details on loss allowance and credit risk disclosures, respectively.

8. Accounts receivables and accounts receivable - related parties

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Accounts receivable | $253,122 | $198,715 |
| Less: Loss allowance | (7,077) | (8,657) |
| Sub-total | 246,045 | 190,058 |
| Accounts receivable - related parties | 605,571 | 410,896 |
| Less: Loss allowance | - | - |
| Total | $851,616 | $600,954 |

Accounts receivable were not pledged.

Trade receivables are generally on 60-180 day terms. The Corporation has adopted IFRS 9 since January 1, 2018 to evaluate impairment loss. Please refer to Note 6(21) for more details on loss allowance in 2018. Prior to January 1, 2018, the Corporation adopted IAS 39 for impairment evaluation. The movements in the provision for impairment of accounts receivables and accounts receivables – related parties and aging analysis of 2017 are as follows (please refer to Note 12 for credit risk disclosures):

| | Individually Assessed Impairment | Collectively Assessed Impairment | Total |
|---|---|---|---|

| | Loss | Loss | |
|---|---|---|---|
| 2017.1.1 | $- | $7,077 | $7,077 |
| Charge for the current period | - | 1,580 | 1,580 |
| 2017.12.31 | $- | $8,657 | $8,657 |

Aging analysis of net accounts receivables and accounts receivables - related parties that are past due as at the end of the reporting period is as follows:

| | Not past due nor impaired | Accounts receivables past due but not impaired | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | <=30 days | 31-60 days | 61-90 days | 91-120 days | Over 121 days | |
| 2017.12.31 | $548,892 | $21,776 | $23,495 | $6,685 | $80 | $26 | $600,954 |

9. Inventories

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Merchandises | $1,324 | $431 |
| Finished goods | 424,367 | 371,948 |
| Work-in-process | 205,408 | 165,428 |
| Raw materials | 79,516 | 74,045 |
| Total | $710,615 | $611,852 |

(1) The cost of inventories recognized as expenses by the Corporation is listed below:

| Item | 2018 | 2017 |
|---|---|---|
| Cost of sales | $817,080 | $664,770 |
| Allowance for inventory valuation and obsolescence loss | 6,730 | 3,731 |
| | $823,810 | $668,501 |

(2) No inventories aforementioned were pledged.

10. Investments accounted for using the equity method

The following table lists the Corporation's investments accounted for using the equity method:

| Investee name | 2018.12.31 Amount | 2018.12.31 Share holding Ratio | 2017.12.31 Amount | 2017.12.31 Share holding Ratio |
|---|---|---|---|---|
| Investments in subsidiaries: | | | | |
| United Medical (B.V.I.) Corporation | $- | - | $128,115 | 100% |
| UOC America Holding Corporation | 21,781 | 100% | - | 100% |
| United Biomech Japan | - | 53% | 966 | 59% |
| UOC Europe Holding SA | 142,108 | 96% | 5,769 | 88% |
| A-Spine Asia Co., Ltd. | 648,741 | 99.4% | 608,774 | 100% |
| Investments in associates: | | | | |
| Shinva United Orthopedic Corporation | 378,707 | 49% | 407,565 | 49% |
| Sub-total of items under assets | 1,191,337 | | 1,151,189 | |
| Investments in subsidiaries: | | | | |
| UOC America Holding Corporation | - | 100% | (7,964) | 100% |
| United Biomech Japan | (2,914) | 53% | - | 59% |
| Sub-total of items under liabilities | (2,914) | | (7,964) | |
| Total | $1,188,423 | | $1,143,225 | |

(1) Investments in subsidiaries

Investments in subsidiaries are expressed as "investments accounted for using the equity method" in individual financial report with valuation adjustments if necessary.

(2) Investments in associates

Information of the Corporation's significant associates is as follows:

Company name: Shinva United Orthopedic Corporation

Relation: The Corporation engages in the manufacturing or sales of products associated with the Corporation's industry chain. For integration of upstream and downstream businesses, we decided to invest in this company.

Primary operation place (registration country): China.

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

Summarized financial information and reconciliation of the investments' carrying amount:

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Current assets | $366,288 | $411,106 |
| Non-current assets | 526,947 | 601,765 |
| Current liabilities | (25,312) | (115,157) |
| Non-current liabilities | - | - |
| Equity | 867,923 | 897,714 |
| Shareholding ratio of the Corporation | 49% | 49% |
| Sub-total | 425,282 | 439,880 |
| Elimination and adjustment due to inter-company transactions | (46,575) | (32,315) |
| Carrying amount of investments | $378,707 | $407,565 |

| | 2018 | 2017 |
|---|---|---|
| Operating revenue | $602 | $- |
| Net (loss) profit of continuing business units for this period | (11,622) | 10,374 |
| Other comprehensive income or loss | - | - |
| Comprehensive income or loss for this period | (11,622) | 10,374 |

The Corporation has invested CNY 30,000 thousand, equivalent to NT$149,844 thousand, to the associate by way of technical value, which was recognized as long-term deferred income. Starting from the service provision date, this amount is amortized on a straight-line basis for three years. As of December 31, 2018 and 2017, the accumulated amortization amounted to NT$70,052 thousand and NT$44,579 thousand, respectively.

The aforementioned investments in associates did not have contingent liabilities or capital commitments as of December 31, 2018 and 2017 and were not pledged.

11. Property, plant and equipment

| | Land | Buildings | Machinery and equipment | Tooling equipment | Information equipment | Leasehold improvements | Other equipment | Unfinished constructions and equipment to be tested | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | | |
| 2018.1.1 | $87,763 | $434,600 | $469,951 | $75,814 | $10,744 | $4,240 | $186,512 | $51,084 | $1,320,708 |
| Additions | - | 2,505 | 20,869 | 21,459 | 1,896 | 3,363 | 29,227 | 48,990 | 128,309 |
| Disposals | - | (1,144) | (12,186) | (8,988) | (563) | (266) | (15,046) | - | (38,193) |
| Reclassification | - | 789 | 67,341 | - | - | 600 | 12,304 | (81,034) | - |
| 2018.12.31 | $87,763 | $436,750 | $545,975 | $88,285 | $12,077 | $7,937 | $212,997 | $19,040 | $1,410,824 |
| 2017.1.1 | $87,763 | $214,195 | $413,172 | $64,792 | $8,526 | $8,152 | $151,837 | $136,912 | $1,085,349 |
| Additions | - | 210 | 15,543 | 15,952 | 2,679 | - | 35,722 | 207,926 | 278,032 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Disposals | - | - | (25,115) | (5,056) | (1,494) | (3,912) | (7,096) | - | (42,673) |
| Reclassification | - | 220,195 | 66,351 | 126 | 1,033 | - | 6,049 | (293,754) | - |
| 106.12.31 | $87,763 | $434,600 | $469,951 | $75,814 | $10,744 | $4,240 | $186,512 | $51,084 | $1,320,708 |
| Depreciation and amortization: | | | | | | | | | |
| 107.1.1 | $- | $30,420 | $157,470 | $28,358 | $5,345 | $1,933 | $88,580 | $- | $312,106 |
| Depreciation | - | 13,975 | 46,334 | 11,604 | 2,319 | 1,187 | 32,820 | - | 108,239 |
| Disposals | - | (1,144) | (12,186) | (8,249) | (563) | (266) | (14,963) | - | (37,371) |
| Reclassification | - | - | - | - | - | - | - | - | - |
| 107.12.31 | $- | $43,251 | $191,618 | $31,713 | $7,101 | $2,854 | $106,437 | $- | $382,974 |
| 106.1.1 | $- | $22,671 | $147,100 | $23,292 | $4,778 | $5,003 | $67,462 | $- | $270,306 |
| Depreciation | - | 7,749 | 35,485 | 9,649 | 2,061 | 842 | 28,214 | - | 84,000 |
| Disposals | - | - | (25,115) | (4,583) | (1,494) | (3,912) | (7,096) | - | (42,200) |
| Reclassification | - | - | - | - | - | - | - | - | - |
| 106.12.31 | $- | $30,420 | $157,470 | $28,358 | $5,345 | $1,933 | $88,580 | $- | $312,106 |
| Net carrying amount: | | | | | | | | | |
| 107.12.31 | $87,763 | $393,499 | $354,357 | $56,572 | $4,976 | $5,083 | $106,560 | $19,040 | $1,027,850 |
| 106.12.31 | $87,763 | $404,180 | $312,481 | $47,456 | $5,399 | $2,307 | $97,932 | $51,084 | $1,008,602 |

(1) The major parts of the Corporation's buildings are main building, mechatronic engineering and refurbishment engineering, etc., and they are depreciated over their useful lives of 80, 20 and 5 years, respectively.

(2) Please refer to Note 8 for details on property, plant and equipment pledged.

12. Intangible assets

| | Computer software cost | Specialized technology | Development expenditure | Total |
|---|---|---|---|---|
| Cost: | | | | |
| 2018.1.1 | $12,033 | $- | $41,451 | $53,484 |
| Additions - separate acquisition | 3,624 | 7,650 | 36,406 | 47,680 |
| Others | (3,936) | - | - | (3,936) |
| 2018.12.31 | $11,721 | $7,650 | $77,857 | $97,228 |
| 2017.1.1 | $15,595 | $- | $31,232 | $46,827 |
| Additions - separate acquisition | 2,998 | - | 10,219 | 13,217 |
| Others | (6,560) | - | - | (6,560) |
| 2017.12.31 | $12,033 | $- | $41,451 | $53,484 |
| Amortization and impairment: | | | | |
| 2018.1.1 | $6,569 | $- | $9,332 | $15,901 |
| Amortization | 3,927 | 43 | 4,815 | 8,785 |
| Others | (3,936) | - | - | (3,936) |
| 2018.12.31 | $6,560 | $43 | $14,147 | $20,750 |

| | | | | |
|---|---|---|---|---|
| 2017.1.1 | $9,007 | $- | $5,207 | $14,214 |
| Amortization | 4,122 | - | 4,125 | 8,247 |
| Others | (6,560) | - | - | (6,560) |
| 2017.12.31 | $6,569 | $- | $9,332 | $15,901 |
| | | | | |
| Net carrying amount: | | | | |
| 2018.12.31 | $5,161 | $7,607 | $63,710 | $76,478 |
| 2017.12.31 | $5,464 | $- | $32,119 | $37,583 |

13. Short-term loans

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Credit loans | $743,619 | $500,000 |
| Interest rate range (%) | 0.7928-0.9800 | 0.9700-1.0015 |

As of December 31, 2018 and 2017, the Corporation's unused bank facilities were NT$821,381 thousand and NT$1,091,800 thousand, respectively.

14. Short-term notes and bills payable

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Short-term notes and bills payable | $50,000 | $- |
| Less: Discount on short-term bills payable | (16) | - |
| Net | $49,984 | $- |
| Interest rate (%) | 0.5200 | - |

15. Corporate bonds payable

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Domestic unsecured bonds payable | $391,223 | $385,713 |
| Less: Liabilities due within one year | - | - |
| Long-term domestic convertible bonds payable | $391,223 | $385,713 |

(1) Domestic convertible bonds payable

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Liability elements: | | |
| Nominal amount of domestic convertible bonds payable | $400,000 | $400,000 |
| Converted amount | - | - |
| Discount on domestic convertible bonds payable | (8,777) | (14,287) |

| | | |
|---|---|---|
| Sub-total | 391,223 | 385,713 |
| Less: Liabilities due within one year | - | - |
| Net | $391,223 | $385,713 |
| Embedded derivatives | $40 | $80 |
| Equity elements | $16,600 | $16,600 |

On August 11, 2017, the Corporation issued domestic unsecured convertible bonds with a coupon rate of 0%. The convertible bonds are analyzed based on the contract clauses, and the composition elements include primary debts, embedded derivatives (option of redemption for the issuer), and equity elements (bondholders have the option to request for conversion into issuer's ordinary shares). Primary issuance clauses are as follows:

Total amount of issuance: NT$400,000 thousand. Nominal amount per bond is NT$100 thousand and the bonds are issued at their nominal value.

Period of Issuance: August 11, 2017 to August 11, 2020.

Critical clauses for redemption:

A. On the next day after the convertible bonds were issued for three full months (November 13, 2017) till 40 days prior to the end of issuance period (July 2, 2020), if the closing price of the Corporation's common stock at the Taipei Exchange exceeds conversion price by more than 30 percent (inclusive) for 30 consecutive business days, the Corporation may inform the bondholders that it will recall all of its outstanding convertible bonds by cash at the nominal amount.

B. On the next day after the convertible bonds were issued for three full months (November 13, 2017) till 40 days prior to the end of issuance period (July 2, 2020), if the balance of outstanding convertible bonds is lower than NT$40,000 thousand (10% of the original issuance amount), the Corporation may recall all of its outstanding convertible bonds by cash at the nominal amount at any subsequent period.

C. If the bondholder fails to respond to the Corporation's share registrar in writing before the final bond recall date set out in the "Bond Recall Notice", the Corporation will recall the bonds by cash on the due date.

Conversion methods:

A. Converted target: Common stocks of the Corporation.

B. Conversion period: From November 12, 2017 to August 11, 2020, the bond holders can request for conversion into the Corporation's common stocks instead of cash redemption by the Corporation.

C. Conversion price and adjustment: The conversion price upon issuance was set at NT$77.30 per share. Where incidents occur and the Corporation's common stocks meet the issuance clauses for conversion price adjustment, the conversion price shall be adjusted in accordance to the formula stipulated in the issuance clauses. As of December 31, 2018 and 2017, the conversion price was NT$73.40 and NT$75.00 per share, respectively.

D. Redemption on maturity date: The Corporation's outstanding bonds will be redeemed in cash upon maturity at 101.5075% of the nominal amount (real return of 0.5%).

The bonds have not been converted as of December 31, 2018.

16. Long-term loans

Details of long-term loans for the years ended December 31, 2018 and 2017 are as follows:

| Creditor | 2018.12.31 | Interest rate % | Repayment period and method |
|---|---|---|---|
| Taiwan Cooperative Bank - Hsinchu Science Park Branch | $2,153 | 1.5500 | Between January 29, 2014 and January 29, 2019; the first repayment was due on January 29, 2015; principal is to be repaid by 17 equal installments of NT$2,153 thousand every three months. |
| " | 47,543 | 1.4000 | Between September 18, 2013 and October 31, 2031; the first repayment was due on September 18, 2014; principal is to be repaid by 70 equal installments of NT$914 thousand every three months. |
| " | 41,412 | 1.5500 | Between September 2, 2016 and September 2, 2021; the first repayment was due on September 2, 2017; principal is to be repaid by 17 equal installments of NT$3,765 thousand every three months. |
| CTBC Bank | 19,666 | 1.3000 | Between October 19, 2017 and October 19, 2022; the first repayment was due on October 19, 2018; repayments of NT$111 thousand is to be made every month; the remaining principal will be repaid in a lump sum when due. |

| | | | |
|---|---|---|---|
| Bank of Taiwan | 100,400 | 1.3531 | Between June 19, 2018 and June 20, 2023; the first repayment is due on September 20, 2019; principal is to be repaid by 16 equal installments of NT$6,275 thousand every three months. |
| " | 139,715 | 1.3214 | From June 19, 2018 to September 20, 2031; the first repayment was due on December 20, 2018; repayments of NT$2,085 thousand is to be made every three months; the remaining principal will be repaid in a lump sum when due. |
| The Agricultural Bank of Taiwan | 100,000 | 1.1000 | From December 20, 2018 to December 20, 2021, the Corporation has a revolving facility with a 90-day extension option. |
| Total | 450,889 | | |
| Less: long-term loans due within one year | (42,982) | | |
| Net | $407,907 | | |

| Creditor | 2017.12.31 | Interest rate % | Repayment period and method |
|---|---|---|---|
| Taiwan Cooperative Bank - Hsinchu Science Park Branch | $10,765 | 1.5500 | Between January 29, 2014 and January 29, 2019; the first repayment was due on January 29, 2015; principal is to be repaid by 17 equal installments of NT$2,153 thousand every three months. |
| " | 51,200 | 1.4500 | Between September 18, 2013 and October 31, 2031; the first repayment was due on September 18, 2014; principal is to be repaid by 70 equal installments of NT$914 thousand every three months. |
| " | 13,647 | 1.5500 | Between December 30, 2013 and December 30, 2018; the first repayment was due on December 30, 2014; principal is to be repaid by 17 equal installments of NT$3,412 thousand every three months. |
| " | 56,470 | 1.6000 | Between September 2, 2016 and September 2, 2021; the first repayment was due on September 2, 2017; principal is to be repaid by 17 equal installments of NT$3,765 thousand every three months. |
| CTBC Bank | 20,000 | 1.2800 | Between October 19, 2017 and October 19, 2022; the first repayment was due on November 19, 2018; repayments of NT$111 thousand is to be made every month; the remaining principal will be repaid in a lump sum when due. |
| Taipei Fubon Commercial Bank | 41,667 | 1.095486 | Between May 31, 2017 and May 31, 2020; the first repayment was due on August 31, 2017; principal is to be repaid by 12 equal installments of NT$4,167 thousand every three months. |
| Total | 193,749 | | |
| Less: long-term loans due within one year | (57,864) | | |
| Net | $135,885 | | |

The secured loans with Taiwan Cooperative Bank, CTBC Bank and Bank of Taiwan have lands, buildings and machinery and equipment, etc. pledged with first priority entitlement. For more details, please refer to Note 8.

17. Post-employment benefits

Defined contribution plan

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

Expenses under the defined contribution plan for 2018 and 2017 are NT$19,319 thousand and NT$16,398 thousand, respectively.

Defined benefits plan

The Corporation's post-employment regulations stipulated in accordance with the "Labor Standards Act" belong to the defined benefits plan. The payout of employees' pension is calculated based on the years of service and approved monthly average wage upon retirement. For service duration of 15 years or less, two base points shall be assigned for every year. Once the duration exceeds 15 years, one base point shall be assigned for each year thereafter. The maximum base points are 45. In accordance with the "Labor Standards Act", the Corporation contributes 2% of total salaries as the pension fund on a monthly basis, which is deposited in the special account of Bank of Taiwan, in the name of the Supervisory Committee of Labor Pension Reserve. Also, the Corporation would assess the balance in the aforementioned labor pension reserve account at the end of each year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to be qualified for retirement next year, the Corporation will make contributions to cover the deficit by next March.

The Ministry of Labor manages assets allocation in accordance with the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund."

The investment of funds is conducted through the self-operation and commissioned operation, as well as the adoption of the mid and long-term investment strategy under active and passive management models. In considerations of risks such as market, credit and liquidity, the Ministry of Labor defines the cap for fund risks and control plans to ensure sufficient flexibility without excessive risks in achieving the targeted returns. The minimum return from the utilization of fund shall not be less than the interest rate of a two-year fixed time deposit of local banks. If there is any shortage, upon approvals from the competent authority, supplement can be made from the national treasury. Since the Corporation is not entitled to participate in the operation and management of the fund, it is unable to disclose the classification of planned assets' fair value as per Paragraph 142 of IAS 19. As of December 31, 2018, the Corporation's defined benefits plan has estimated to contribute NT$7,706 thousand in the following year.

For the years ended on December 31, 2017 and December 31, 2016, the Company's defined benefits plans are expected to due on 2032, and 2031.

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

| | 2018 | 2017 |
|---|---|---|
| Current service cost | $331 | $324 |
| Net interest of net defined benefit liabilities | 234 | 337 |
| Total | $565 | $661 |

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

| | 2018.12.31 | 2017.12.31 | 2017.1.1 |
|---|---|---|---|
| Present value of defined benefit obligations | $57,045 | $54,629 | $53,371 |
| Fair value of plan assets | (45,444) | (37,773) | (30,888) |
| Net defined benefit liabilities on the book | $11,601 | $16,856 | $22,483 |

Reconciliation of net defined benefit liabilities:

| | Present value of defined benefit | Fair value of plan assets | Net defined benefit liabilities |
|---|---|---|---|

| | obligations | | |
|---|---|---|---|
| 2017.1.1 | $53,371 | $(30,888) | $22,483 |
| Current service cost | 324 | - | 324 |
| Interest expense (income) | 801 | (464) | 337 |
| Previous service cost and settlement gains or losses | - | - | - |
| Sub-total | 54,496 | (31,352) | 23,144 |
| Remeasurements of defined benefit liabilities/assets: | | | |
| Actuarial gains or losses from demographic assumptions | 148 | - | 148 |
| Actuarial gains or losses from changes in financial assumptions | 810 | - | 810 |
| Experience adjustments | (309) | - | (309) |
| Remeasurements of defined benefit assets | - | 151 | 151 |
| Sub-total | 55,145 | (31,201) | 23,944 |
| Benefits paid | (516) | 516 | - |
| Employer contributions | - | (7,088) | (7,088) |
| 2017.12.31 | 54,629 | (37,773) | 16,856 |
| Current service cost | 331 | - | 331 |
| Interest expense (income) | 759 | (525) | 234 |
| Previous service cost and settlement gains or losses | - | - | - |
| Sub-total | 55,719 | (38,298) | 17,421 |
| Remeasurements of defined benefit liabilities/assets: | | | |
| Actuarial gains or losses from demographic assumptions | 485 | - | 485 |
| Actuarial gains or losses from changes in financial assumptions | 2,392 | - | 2,392 |
| Experience adjustments | (117) | - | (117) |
| Remeasurements of defined benefit assets | - | (874) | (874) |
| Sub-total | 58,479 | (39,172) | 19,307 |
| Benefits paid | (1,434) | 1,434 | - |
| Employer contributions | - | (7,706) | (7,706) |
| 2018.12.31 | $57,045 | $(45,444) | $11,601 |

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

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Discount rate | 1.05% | 1.39% |
| Expected salary increase rate | 3.00% | 3.00% |

Sensitivity analysis of each significant actuarial assumption:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Increase in defined benefit obligations | Decrease in defined benefit obligations | Increase in defined benefit obligations | Decrease in defined benefit obligations |
| Discount rate increases by 0.5% | $- | $3,507 | $- | $3,583 |
| Discount rate decreases by 0.5% | 3,792 | - | 3,886 | - |
| Expected salary increases by 0.5% | 3,698 | - | 3,804 | - |
| Expected salary decreases by 0.5% | - | 3,459 | - | 3,545 |

The aforementioned sensitivity analysis is conducted to analyze the possible impact on defined benefit obligations under the assumption that there are reasonable changes to a single actuarial assumption (e.g. discount rate or expected salary) while all other assumptions remain constant. Since some actuarial assumptions are in connection with to each other, it is rare to see changes on a single actuarial assumption in practice. Hence, this analysis has its own limitation.

The method and assumptions of the sensitivity analysis in the current period are the same as the previous period.

18. Equity

(1) Common stock

As of January 1, 2018 and 2017, the Corporation's authorized capital amounted to NT$1,000,000 thousand with issued capital of NT$797,129 thousand and NT$717,469 thousand at a par value of NT$10, dividing into 79,713 thousand shares and 71,747 thousand shares, respectively.

The Board of Directors' meeting on May 2, 2017 resolved to issue 8,000 thousand common stocks for cash capital increase at a par value of NT$10. Shares are to be issued at a premium at NT$48 per share. The base date of the capital increase was set on October 6, 2017 and the changes were approved by and registered with the Hsinchu Science Park Administration, Ministry of Science and Technology on October 19, 2017.

Due to the fact that the Corporation's restricted employee shares did not meet the vesting conditions, the Board of Directors resolved to cancel 22,000 shares, 12,000 shares and 12,000 shares on August 8, 2017, November 7, 2017 and March 20, 2018 with base dates for capital reduction set on August 9, 2017, November 10, 2017 and April 9, 2018, and the registration of changes were completed on August 15, 2017, November 24, 2017 and April 18, 2018, respectively. As of December 31, 2017, the total number of restricted employee shares issued is 530 thousand shares. 518 thousand shares from the Corporation's restricted employee shares expired on July 26, 2018.

The shareholders' meeting on June 12, 2018 resolved to issue restricted employee shares to the employees. A total number of 750 thousand shares will be issued at a par value of NT$10, with issuance price equaled NT$0. Those shares took effect upon approval from the Financial Supervisory Commission as of July 3, 2018. The Board of Directors' meeting on August 7, 2018 resolved to issue 750 thousand restricted employee shares at an issuance price of NT$0. The amount of capital increase was NT$7,500 thousand with base date set on August 7, 2018. The changes were approved by and registered with the Hsinchu Science Park Administration, Ministry of Science and Technology on August 15, 2018.

As of December 31, 2018 and 2017, the Corporation's authorized capital amounted to NT$1,000,000 thousand with issued capital of NT$804,509 thousand and NT$797,129 thousand at a par value of NT$10, dividing into 80,451 thousand shares and 79,713 thousand shares, respectively.

(2) Capital surplus

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Issuance premium | $1,228,634 | $1,193,582 |
| Stock options – convertible corporate bonds | 16,600 | 16,600 |
| Issuance of restricted employee shares | 34,050 | 21,995 |
| Others | 1,252 | 11,434 |
| Total | $1,280,536 | $1,243,611 |

According to laws, capital surplus shall not be used except for making good the deficit of the Corporation. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the Corporation as stock dividends up to a certain percentage of paid-in capital. The said capital surplus could also be distributed in the form of cash dividends to its shareholders in proportion to the number of shares being held by each of them.

(3) Earnings distribution and dividend policy

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

A. Payment of all taxes and dues
B. Offset deficits
C. Appropriate 10% to be the statutory surplus reserve
D. Special earnings reserve is recognized or reversed in accordance with laws and regulations or regulatory authorities.
E. The Board of Directors shall draft an earning distribution proposal according to the dividend policy, and reported it to the shareholders' meeting.

The Corporation's dividend policy shall consider the Corporation's current and future investment environment, capital demands, domestic and foreign competition situations and capital budgets, in order to safeguard the shareholders' interests and find a balance between dividends and the Corporation's long-term financial plan. On an annual basis, the Board of Directors will formulate a distribution plan, and report it to the shareholders' meeting. Dividends distributable to shareholders shall be 50%~100% of current year's distributable earnings, among which, at least 50% shall be in the form of cash.

According to the Company Act, statutory surplus reserve shall be appropriated until its balance equals total capital. The statutory surplus reserve may be used to offset deficit. When the Corporation has no deficit, statutory surplus reserve in excess of 25% of paid-in capital may be distributed in the form of stock or cash dividends to its shareholders in proportion to the number of shares being held by each of them.

After adopting IFRS, the Corporation complies with FSC's Order No. Financial-Supervisory-Securities-Corporate-1010012865 issued on April 6, 2012: upon the first-time adoption of IFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) that the Corporation elects to transfer to retained earnings by application of the exemption under IFRS 1, "First-time Adoption of IFRS", the Corporation shall set aside an equal amount of special earnings reserve. Following a company's adoption of the IFRS for the preparation of its financial reports, when distributing distributable earnings, if the Corporation has already set aside special earnings reserve according to the requirements in the preceding point, it shall set aside supplemental special earnings reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

However, as the Corporation's retained earnings from the first-time adoption of IFRS was a negative number, special earnings reserve did not have to be appropriated. In addition, as the Corporation did not use, dispose or reclassify related assets in 2018 and 2017, there is no reversal of special earnings reserve to undistributed earnings.

Details of the 2018 and 2017 earnings appropriation and distribution and dividends per share as approved by the Board of Directors' and the shareholders' meetings on March 18, 2019 and June 20, 2018, respectively, are as follows:

| | Distribution of Earnings | | Dividend per share (NTD) | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Statutory surplus reserve | $12,755 | $13,026 | | |
| Special earnings reserve | 11,850 | 16,035 | | |
| Cash dividend of common stocks | 101,063 | 100,403 | $1.256 | $1.260 |
| Total | $125,668 | $129,464 | | |

Please refer to Note 6(23) for further details on the estimation and recognition foundation of employees' compensation and remuneration to directors and supervisors.

19. Share-based payment plans

Employees of the Corporation are entitled to share-based payment as part of their compensation. Services rendered by employees are considerations for the equity instruments granted. These transactions are accounted for as equity-settled share-based payment transactions.

(1) Restricted employee share plans of the Corporation

The Corporation's shareholders' meeting on June 23, 2015 resolved to issue restricted employee shares of up to 600 thousand common stocks at NT$0. The stock price at the grant date stood at NT$51.5. The restricted employee shares issued by the Corporation shall not be transferred within the three-year vesting period, however, the holders are still entitled to dividend distribution. Due to the fact that the Corporation's restricted employee shares met the vesting conditions on July 30, 2017, the Board of Directors resolved to cancel 8,000 shares, 22,000 shares, 12,000 shares and 12,000 shares on December 23, 2015, August 8, 2017, November 7, 2017 and March 20, 2018, respectively. As of December 31, 2017, the total number of restricted employee shares issued is 530,000 shares. 518 thousand shares from the Corporation's restricted employee shares expired on July 26, 2018.

The Corporation's shareholders' meeting on June 12, 2018 resolved to issue restricted employee shares of up to 750 thousand common stocks at NT$0. The stock price at the grant date stood at NT$55.4. The restricted employee shares issued by the Corporation shall not be transferred within the three-year vesting period, however, the holders are still entitled to dividend distribution. As the Corporation's restricted employee shares did not meet the vesting conditions, the total number of restricted employee shares issued is 750,000 shares as of December 31, 2018.

After the issuance of restricted employee shares, they shall be transferred immediately to a trust, and prior to the fulfillment of the vesting conditions, the employee shall not request the trustee to return the restricted employee shares for any reason or in any manner. Moreover, during the restricted employee shares' trust period, the Corporation is delegated to act on behalf of the employees in dealing with the stock trust agency concerning the negotiation, signing, amendment, extension, cancellation, termination of the trust contract (inclusive but not limited to), as well as the delivery, use and disposal of the trust property.

When the employee fails to meet the vesting conditions, the Corporation is entitled by law to retrieve the restricted employee shares and cancel them.

(2) The Corporation reserves an employee subscription plan within cash capital increase according to the Company Act

The Board of Directors' meeting on May 2, 2017 resolved to issue 8,000 thousand common stocks for cash capital increase at a par value of NT$10. Shares are to be issued at a premium at NT$48 per share. According to Paragraph 1, Article 267 of the Company Act, the Corporation has reserved 15% of new shares, i.e. a total of 1,200 thousand shares, for employees' subscription. According to IFRS 2 "Share-based Payment", the compensation cost of NT$13,555 thousand is recognized at the fair value of equity product as of the grant date.

(3) The expense recognized for employee share-based payment plans is shown in the following table:

| | 2018 | 2017 |
|---|---|---|
| Plan of restricted employee shares | $10,115 | $8,262 |
| Employee subscription plan reserved for cash | - | 13,555 |

| | | |
|---|---|---|
| capital increase | | |
| Total | $10,115 | $21,817 |

20. Operating Revenue

| | 2018 (Note) | 2017 |
|---|---|---|
| Sale of goods | $1,789,007 | $1,580,999 |
| Other operating revenues | 369 | 55 |
| Total | $1,789,376 | $1,581,054 |

Note: The Corporation has adopted IFRS 15 from January 1, 2018 to deal with revenue from customer contracts and selected to recognize the cumulative effect of initial adoption on January 1, 2018.

The Corporation has adopted IFRS 15 from January 1, 2018 to deal with revenue from customer contracts. Information on revenue from customer contracts in 2018 is as follows:

Revenue breakdown

Revenue from the sale of goods was generated by a single segment and recognized at a point of time.

Contract balance

Contract liabilities - current

| | Beginning balance | Ending balance | Difference |
|---|---|---|---|
| Sales of goods | $936 | $1,870 | $934 |

The Corporation's contract liabilities increased by NT$934 thousand in 2018.

21. Expected credit loss (gain)

| | 2018 | 2017 |
|---|---|---|
| Operating expenses - Expected credit loss (gain) | | |
| Notes receivable | $- | (Note) |
| Accounts receivable | (1,580) | (Note) |
| Total | $(1,580) | (Note) |

Note: The Corporation has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

For information on credit risk, please refer to Note 12.

Loss allowance of the Corporation's receivables (including notes and accounts receivable) is measured at an amount equal to lifetime expected credit losses. Explanations on loss allowance as of December 31, 2018 are as follows:

Loss allowance is measured by taking into account the credit ratings of the counterparties, the geographical regions and the industry, and adopts the provision matrix. Relevant information is as follows:

| | Not past due | Number of days overdue | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | (Note) | <=30 days | 31-60 days | 61-90 days | 91-120 days | 121-150 days | 151-180 days | Over 181 days | Total |
| Gross carrying amount | $776,318 | $50,597 | $27,943 | $175 | $130 | $159 | $41 | $7,065 | $862,428 |
| Loss ratio | 0% | 0% | 0% | 0% | 0% | 5% | 10% | 100% | |
| Lifetime expected credit losses | - | - | - | - | - | 8 | 4 | 7,065 | 7,077 |
| Total | $776,318 | $50,597 | $27,943 | $175 | $130 | $151 | $37 | $- | $855,351 |
| Carrying amount | | | | | | | | | $855,351 |

Note: None of the Corporation's notes receivable is past due.

The movements in the Corporation's loss allowance for notes and accounts receivables in 2018 are as follows:

| | Notes receivable | Accounts receivable |
|---|---|---|
| Beginning balance (in accordance with IAS 39) | $- | $8,657 |
| Addition (reversal) for the current period | - | (1,580) |
| Ending balance | $- | $7,077 |

22. Operating lease

Operating lease commitments - the Corporation as a lessee

The Corporation has entered into commercial leases on plant, office and parking space. These leases have an average life of three to thirty years with no renewal option included in the contracts. There are no restrictions placed upon the Corporation by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as of December 31, 2018 and 2017 are as follows:

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Not later than one year | $10,161 | $8,527 |

| | | |
|---|---|---|
| Later than one year and not later than five years | 31,547 | 23,630 |
| Later than five years | 151,796 | 61,439 |
| Total | $193,504 | $93,596 |

23. Summary statement of employee benefits, depreciation and amortization expense by function:

| Type \ Function | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Operating Cost | Operating Expenses | Total | Operating Cost | Operating Expenses | Total |
| Employee benefits expense | | | | | | |
| Salaries expense | $235,521 | $205,253 | $440,774 | $195,468 | $184,910 | $380,378 |
| Labor and health insurance premiums | 22,562 | 15,714 | 38,276 | 18,598 | 13,958 | 32,556 |
| Pension expense | 11,195 | 8,689 | 19,884 | 9,250 | 7,809 | 17,059 |
| Remuneration to directors | - | 4,256 | 4,256 | - | 6,553 | 6,553 |
| Other employee benefits expense | 9,313 | 4,879 | 14,192 | 7,871 | 4,381 | 12,252 |
| Depreciation expenses | 65,539 | 42,700 | 108,239 | 49,038 | 34,962 | 84,000 |
| Amortization expense | - | 8,785 | 8,785 | - | 8,247 | 8,247 |

Note: The Corporation had 640 and 605 employees as at December 31, 2018 and 2017, respectively, and there were 6 directors who were not concurrently serving as employees.

The Corporation's Articles of Incorporation provide that if there is profit in the year, 12 percent of profit shall be allocated for employee compensation, and no more than 3 percent shall be allocated for remuneration of directors and supervisors. However, the Corporation's accumulated losses shall first be offset. Aforementioned employees' compensation shall be distributed in cash and undertaken by a resolution adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors and a report of such distribution shall be submitted to the shareholders' meeting. Information relating to compensation to employees and remuneration to directors and supervisors approved by the Board of Directors can be inquired at the Market Observation Post System, TWSE.

Based on the profits of 2018, the Corporation allocated 12 and 3 percent of the profits as compensation to employees and remuneration to directors and supervisors with amount of NT$17,025 thousand and NT$4,256 thousand recognized under salary expense, respectively. The Corporation's Board of Directors resolved on March 18, 2019 to distribute NT$17,025 thousand and NT$4,256 thousand in cash as compensation to employees and remuneration to directors and supervisors, respectively.

In 2017, the actual amounts of compensation to employees and remuneration to directors and supervisors distributed were NT$24,796 thousand and NT$6,199 thousand, respectively. There was no material difference between the amount paid and the amount recognized as expenses in the 2017 financial reports.

24. Non-operating income and expenses

(1) Other income

| | 2018 | 2017 |
|---|---|---|
| Interest Income | $1,340 | $1,960 |
| Other income - others | 39,905 | 31,303 |
| Total | $41,245 | $33,263 |

(2) Other gains and losses

| | 2018 | 2017 |
|---|---|---|
| Gain (loss) on disposal of property, plant and equipment | $(711) | $(458) |
| Foreign exchange gain (loss), net | (106) | (9,936) |
| Gain (loss) on financial liabilities at FVTPL | 5,277 | 719 |
| Other expenses | (144) | (70) |
| Total | $4,316 | $(9,745) |

(3) Finance costs

| | 2018 | 2017 |
|---|---|---|
| Interest on bank loans | $(10,342) | $(8,485) |
| Interest on bonds payable | (5,510) | (2,273) |
| Total | $(15,852) | $(10,758) |

25. Components of other comprehensive income

Components of other comprehensive income for the year ended December 31, 2018 are as follows:

| | Arising during the | Reclassificat ion | Other comprehensi | Income tax benefit | After-tax amount |
|---|---|---|---|---|---|

| | period | adjustment | ve income or loss | (expense) | |
|---|---|---|---|---|---|
| Items not reclassified to profit or loss: | | | | | |
| Remeasurement of defined benefit plan | $(1,886) | $- | $(1,886) | $- | $(1,886) |
| Unrealized valuation gain (loss) on investments in equity instruments at FVTOCI | (2,819) | - | (2,819) | - | (2,819) |
| Shares of other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method | (432) | - | (432) | - | (432) |
| Items that might be reclassified to profit or loss: | | | | | |
| Shares of other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method | (8,599) | - | (8,599) | - | (8,599) |
| Total | $(13,736) | $- | $(13,736) | $- | $(13,736) |

Components of other comprehensive income for the year ended December 31, 2017 are as follows:

| | Arising during the period | Reclassification adjustment | Other comprehensive income or loss | Income tax benefit (expense) | After-tax amount |
|---|---|---|---|---|---|
| Items not reclassified to profit or loss: | | | | | |
| Remeasurement of defined benefit plan | $(800) | $- | $(800) | $- | $(800) |
| Items that might be reclassified to profit or loss: | | | | | |
| Shares of other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method | (16,035) | - | (16,035) | - | (16,035) |
| Total | $(16,835) | $- | $(16,835) | $- | $(16,835) |

## 26. Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Corporation's corporate income tax rate for the year ended December 31, 2018 was adjusted from 17% to 20%. The tax rate applicable to undistributed earnings for the year ended December 31, 2018 was reduced from 10% to 5%.

The major components of income tax expense (benefit) for the years ended December 31, 2018 and 2017 are as follows:

Income tax expense recognized in profit or loss

| | 2018 | 2017 |
|---|---|---|
| Current income tax expense (benefit): | | |
| Current income tax expense | $13,794 | $50,676 |
| Adjustments on current income tax of prior periods | (4,779) | - |
| Deferred income tax expense (benefit): | | |
| Deferred income tax expense (benefit) relating to origination and reversal of temporary differences | (5,644) | (7,071) |
| Deferred income tax relating to changes in tax rates or new taxes | (10,333) | - |

| | | |
|---|---|---|
| Income tax expense (benefit) | $(6,962) | $43,605 |

Income tax recognized in other comprehensive income

| | 2018 | 2017 |
|---|---|---|
| Deferred income tax expense (benefit): | | |
| Remeasurement of defined benefit plan | $- | $- |
| Unrealized valuation gain (loss) on investments in equity instruments at FVTOCI | - | - |
| Exchange difference from translation of foreign operations' financial statements | - | - |
| Shares of other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method | - | - |
| Income tax relating to components of other comprehensive income | $- | $- |

Reconciliation between tax expense (benefit) and the product of accounting profit multiplied by applicable tax rates is as follows:

| | 2018 | 2017 |
|---|---|---|
| Profit before tax from continuing operations | $120,592 | $173,869 |
| Tax at the domestic tax rates applicable of profits in the country of main operation | $24,118 | $29,558 |
| Tax effect of revenues exempt from taxation | (8,393) | (6,159) |
| Tax effect of expenses not deductible for tax purposes | 6,592 | 9,414 |
| Tax effect of deferred income tax assets/liabilities | (14,167) | 10,792 |
| Deferred income tax relating to changes in tax rates or new taxes | (10,333) | - |
| Adjustments on current income tax of prior periods | (4,779) | - |
| Total income tax expense (benefit) recognized in profit or loss | $(6,962) | $43,605 |

Balance of deferred income tax assets (liabilities) related to the following items:

2018

| | Beginning balance | Recognized in profit or loss | Recognized in other comprehensive income | Ending balance |
|---|---|---|---|---|
| Temporary differences | | | | |
| Unrealized transactions between Company entities | $40,580 | $17,336 | $- | $57,916 |
| Unrealized exchange gain (loss) | 86 | 571 | - | 657 |
| Valuation on financial assets at FVTPL | (7) | 7 | - | - |

| | | | | |
|---|---|---|---|---|
| Long-term deferred income | 17,895 | (1,937) | - | 15,958 |
| Deferred income tax (expense)/benefit | | $15,977 | $- | |
| Deferred income tax assets/(liabilities), net | $58,554 | | | $74,531 |
| Information on the balance sheet is shown as follows: | | | | |
| Deferred income tax assets | $58,561 | | | $74,531 |
| Deferred income tax liabilities | $7 | | | $- |

2017

| | Beginning balance | Recognized in profit or loss | Recognized in other comprehensive income | Ending balance |
|---|---|---|---|---|
| Temporary differences | | | | |
| Unrealized transactions between Company entities | $28,415 | $12,165 | $- | $40,580 |
| Unrealized exchange gain (loss) | 842 | (756) | - | 86 |
| Valuation on financial assets at FVTPL | - | (7) | - | (7) |
| Long-term deferred income | 22,226 | (4,331) | - | 17,895 |
| Deferred income tax (expense)/benefit | | $7,071 | $- | |
| Deferred income tax assets/(liabilities), net | $51,483 | | | $58,554 |
| Information on the balance sheet is shown as follows: | | | | |
| Deferred income tax assets | $51,483 | | | $58,561 |
| Deferred income tax liabilities | $- | | | $7 |

Unrecognized deferred income tax assets

As of December 31, 2018 and 2017, since taxable profit is expected to be insufficient for unused tax losses and deductible temporary differences, the unrecognized deferred income tax assets amounted to NT$49,179 thousand and NT$68,083 thousand, respectively.

Business income tax approval status

As of December 31, 2018, the Corporation's business income tax up to 2016 has been approved by tax authority.

27. Earnings per share

Basic earnings per share is calculated by dividing the net income attributable to common stock holders of the parent company by weighted average number of common stocks outstanding of the period.

Diluted earnings per share is calculated by dividing the net income attributable to common stock holders of the parent company (after adjusted for interests on convertible bonds) by weighted average number of common stocks outstanding of the period, plus weighted average number of common stocks to be issued when all dilutive potential common stocks are converted into common stocks.

| | 2018 | 2017 |
|---|---|---|
| (1) Basic earnings per share | | |
| Net income (NT$ thousands) | $127,554 | $130,264 |
| Weighted average number of common stocks for basic earnings per share (thousands stock) | 79,408 | 73,090 |
| Basic earnings per share (NT$) | $1.61 | $1.78 |

| | 2018 | 2017 |
|---|---|---|
| (2) Diluted earnings per share | | |
| Net income (NT$ thousands) | $127,554 | $130,264 |
| Interest of convertible bonds (NT$ thousands) | 4,408 | 1,886 |
| Net income after dilution effect adjustment (NT$ thousands) | $131,962 | $132,150 |
| | | |
| Weighted average number of common stocks for basic earnings per share (thousands stock) | 79,408 | 73,090 |
| Dilution effect: | | |
| Convertible bonds (thousands stock) | 5,333 | 2,089 |
| Restricted employee shares (thousands stock) | 331 | 477 |
| Weighted average number of common stocks after dilution effect adjustment (thousands stock) | 85,072 | 75,656 |
| Diluted earnings per share (NT$) | $1.55 | $1.75 |

After the reporting period and before the publication of the financial statements, there are no other transactions which would make significant changes to the numbers of common stocks outstanding or potential common stocks at the end of period.

28. Changes in ownership equity of subsidiaries

New shares of subsidiaries not subscribed in proportion of shares held

UOC Europe Holding SA issued new shares on October 2, 2017. As a result, the Corporation's ownership in this subsidiary increased to 88%. Cash acquired by the Corporation from capital increase was CHF 2,250 thousand (NT$70,669 thousand), and the carrying amount of UOC Europe Holding SA's net assets (originally acquired without goodwill) was CHF 3,758 thousand (NT$117,784 thousand). Adjustments relevant to the increase of the Corporation's interest in UOC Europe Holding SA is as follows:

| | 2017 |
|---|---|

| | |
|---|---|
| Cash capital increase acquired by the subsidiary | $- |
| Increase in non-controlling interests | 2,355 |
| Differences in paid-in capital recognized in equity | $2,355 |

UOC Europe Holding SA issued new shares on April 2, 2018. As a result, the Corporation's ownership in this subsidiary increased to 92%. Cash acquired by the Corporation from capital increase was CHF 2,250 thousand (NT$68,640 thousand), and the carrying amount of UOC Europe Holding SA's net assets (originally acquired without goodwill) was CHF 5,742 thousand (NT$175,134 thousand). Adjustments relevant to the increase of the Corporation's interest in UOC Europe Holding SA is as follows:

| | 2018 |
|---|---|
| Cash capital increase acquired by the subsidiary | $- |
| Increase in non-controlling interests | 1,232 |
| Differences in paid-in capital recognized in equity | $1,232 |

UOC Europe Holding SA issued new shares on July 2, 2018. As a result, the Corporation's ownership in this subsidiary increased to 96%. Cash acquired by the Corporation from capital increase was CHF 5,500 thousand (NT$168,701 thousand), and the carrying amount of UOC Europe Holding SA's net assets (originally acquired without goodwill) was CHF 10,810 thousand (NT$331,157 thousand). Adjustments relevant to the increase of the Corporation's interest in UOC Europe Holding SA is as follows:

| | 2018 |
|---|---|
| Cash capital increase acquired by the subsidiary | $- |
| Increase in non-controlling interests | 250 |
| Differences in paid-in capital recognized in equity | $250 |

United Biomech Japan issued new shares on July 3, 2017. As a result, the Corporation's ownership increased to 59%. Cash acquired by the Corporation from capital increase was JPY 30,000 thousand (NT$8,064 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY 81,656 thousand (NT$22,094 thousand). Adjustments relevant to the increase of the Corporation's interest in United Biomech Japan is as follows:

| | 2017 |
|---|---|
| Cash capital increase acquired by the subsidiary | $- |
| Increase in non-controlling interests | 2,184 |

| | |
|---|---|
| Differences in paid-in capital recognized in equity | $2,184 |

United Biomech Japan issued new shares on January 2, 2018. As a result, the Corporation's ownership increased to 68%. Cash acquired by the Corporation from capital increase was JPY 46,500 thousand (NT$12,332 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY 53,969 thousand (NT$14,305 thousand). Adjustments relevant to the increase of the Corporation's interest in United Biomech Japan is as follows:

| | 2018 |
|---|---|
| Cash capital increase acquired by the subsidiary | $- |
| Increase in non-controlling interests | 3,768 |
| Differences in paid-in capital recognized in equity | $3,768 |

United Biomech Japan issued new shares on February 1, 2018. As the Corporation did not take part in the subscription, its ownership decreased to 51%. Cash acquired by the Corporation from capital increase was JPY 73,500 thousand (NT$19,628 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY116,550 thousand (NT$31,166 thousand). Adjustments relevant to the decrease of the Corporation's interest in United Biomech Japan is as follows:

| | 2018 |
|---|---|
| Cash capital increase acquired by the subsidiary | $(19,628) |
| Increase in non-controlling interests | 11,579 |
| Differences in paid-in capital recognized in equity | $(8,049) |

United Biomech Japan issued new shares on December 10, 2018. As a result, the Corporation's ownership increased to 53%. Cash acquired by the Corporation from capital increase was JPY 25,500 thousand (NT$6,951 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY 66,427 thousand (NT$18,097 thousand). Adjustments relevant to the increase of the Corporation's interest in United Biomech Japan is as follows:

| | 2018 |
|---|---|
| Cash capital increase acquired by the subsidiary | $(2,604) |
| Increase in non-controlling interests | 4,320 |
| Differences in paid-in capital recognized in equity | $1,716 |

A-Spine Asia Co., Ltd. issued new shares on November 16, 2018. As a result, the

Corporation's ownership decreased to 99.4%. Cash acquired by the Corporation from capital increase was NT$37,040 thousand, and the carrying amount of A-Spine Asia's net assets (originally acquired with intangible assets – brand, but without goodwill) was NT$356,761 thousand). Adjustments relevant to the decrease of the Corporation's interest in A-Spine Asia is as follows:

| | 2018 |
|---|---|
| Cash capital increase acquired by the subsidiary | $(2,960) |
| Increase in non-controlling interests | 2,140 |
| Differences in paid-in capital recognized in equity | $(820) |

## VII. Related-party transactions

Related-parties who have transactions with the Corporation during the financial reporting period are as follows:

Name of related-party and relationship

| Name of related party | Relationship with the Corporation |
|---|---|
| UOC America Holding Corporation | Subsidiary of the Corporation |
| United Orthopedic Corporation (Suisse) SA | Subsidiary of the Corporation |
| United Orthopedic Corporation (France) | Subsidiary of the Corporation |
| United Biomech Japan Inc. | Subsidiary of the Corporation |
| A-Spine Asia Co., Ltd. | Subsidiary of the Corporation |

| Name of related party | Relationship with the Corporation |
|---|---|
| Shinva United Orthopedic Corporation | Affiliate of the Corporation |
| United Medical Co., Ltd. | Affiliate of the Corporation |
| United Medical Instrument Co., Ltd. | Affiliate of the Corporation |
| United Medical Technology (ShangHai) Co., Ltd. | Affiliate of the Corporation |
| Changgu Biotech Corporation | The Corporation is a shareholder of the Corporation |
| Peng, Yu-Hsin | Deputy General Manager of the Corporation |

Major transactions with related parties

1. Sales

| | 2018 | 2017 |
|---|---|---|
| Subsidiaries | | |

| | | |
|---|---|---|
| UOC America Holding Corporation | $102,961 | $207,360 |
| United Orthopedic Corporation (Suisse) SA | 252,692 | 184,404 |
| Others | 27,794 | 1,523 |
| Sub-total | 383,447 | 393,287 |
| Affiliate of the Corporation | | |
| United Medical Instrument Co., Ltd. | 394,665 | 320,619 |
| Others | 52,846 | 41,459 |
| Sub-total | 447,511 | 362,078 |
| The Corporation is a shareholder of the Corporation | 2,084 | - |
| Total | $833,042 | $755,365 |

The sales price offered by the Corporation to related parties is marked up at the cost, and the collection term in principle has no significant differences from ones to general exporting customers. However, the Corporation may offer a longer credit period in consideration of the related parties' funding conditions.

2. Purchase

| | 2018 | 2017 |
|---|---|---|
| Subsidiaries | $1,054 | $105 |
| Affiliate of the Corporation | | |
| United Medical Co., Ltd. | 70,797 | 84,105 |
| Total | $71,851 | $84,210 |

The purchase price offered by the Corporation to related parties is marked up at the cost, and the payment term is to pay on a monthly basis.

3. Accounts receivable - related parties

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Subsidiaries | | |
| United Orthopedic Corporation (Suisse) SA | $326,686 | $231,513 |
| UOC America Holding Corporation | 46,086 | 81,156 |
| Others | 28,549 | 1,276 |
| Sub-total | 401,321 | 313,945 |
| Affiliate of the Corporation | | |
| United Medical Instrument Co., Ltd. | 182,817 | 81,884 |
| Others | 20,394 | 15,067 |
| Sub-total | 203,211 | 96,951 |
| The Corporation is a shareholder of the Corporation | 1,039 | - |
| Total | 605,571 | 410,896 |
| Less: Loss allowance | - | - |
| Net | $605,571 | $410,896 |

4. Accounts payable - related parties

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Affiliate of the Corporation | | |
| United Medical Co., Ltd. | $1,364 | $17,047 |

5. Other receivables - related parties

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Subsidiaries | | |
| United Orthopedic Corporation (France) | $403 | $- |
| United Biomech Japan Inc. | 307 | - |
| A-Spine Asia Co., Ltd. | 245 | - |
| United Orthopedic Corporation (Suisse) SA | 240 | 129 |
| UOC America Holding Corporation | 121 | 178 |
| Sub-total | 1,316 | 307 |
| Affiliate of the Corporation | - | 2 |
| Total | $1,316 | $309 |

6. Other payables - related parties

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Subsidiaries | $- | $653 |
| Affiliates of the Corporation | 245 | - |
| Total | $245 | $653 |

7. Long-term accounts receivables - related parties

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Subsidiary | | |
| United Orthopedic Corporation (Suisse) SA | $- | $7,859 |

8. Lending funds

| | 2018 | 2017 |
|---|---|---|
| United Orthopedic Corporation (Suisse) SA | $- | $7,859 |

For details on loans provided by the Corporation to subsidiaries, please refer to Table 1.

9. Guarantee and endorsement:

| | 2018 | 2017 |
|---|---|---|

| | | |
|---|---|---|
| UOC America Holding Corporation | $194,968 | $159,350 |

For details on the Corporation's guarantee and endorsement due to subsidiaries' bank loans, please refer to Table 2.

10. Property transactions

The Corporation sold assets to the following related parties in 2018:

| | Property name | Proceeds from disposal | Loss on disposal |
|---|---|---|---|
| Key management | Transportation equipment | $83 | $- |

As of December 31, 2018, the Corporation has collected proceeds of NT$83 thousand.

11. Remunerations for the Corporation's key management

| | 2018 | 2017 |
|---|---|---|
| Short-term employee benefits | $24,105 | $25,668 |
| Share-based payments | 2,805 | 1,803 |
| Total | $26,910 | $27,471 |

VIII. Pledged assets

The following table lists assets of the Corporation pledged as collaterals:

| | Carrying amount | | |
|---|---|---|---|
| Item | 2018.12.31 | 2017.12.31 | Secured liabilities |
| Financial assets measured at amortized cost - non-current | $6,714 | (Note) | Performance bond, comprehensive credit loan, import duty guarantee |
| Bond investments with no active market - non-current | (Note) | $6,705 | " |
| Property, plant and equipment - land and building | 399,822 | 185,266 | " |
| Property, plant and equipment - machinery and equipment | 273,291 | 165,996 | " |

| | | |
|---|---|---|
| Total | $679,827 | $357,967 |

Note: The Corporation has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

IX. Commitments and contingencies

1. Material contracts entered by the Corporation for the acquisition of fixed assets are as follows:

December 31, 2018

None.

December 31, 2017

| Item | Total Contract Amount | Amount Paid | Amount Outstanding |
|---|---|---|---|
| Plants and auxiliary equipment (phase-3 plant) | $362,177 | $331,093 | $31,084 |

X. Loss due to major disasters

None.

XI. Significant subsequent events

None.

XII. Others

1. Categories of financial instruments

Financial assets

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Financial assets at FVTPL: | | |
| Mandatorily measured at FVTPL | $40 | $80 |
| Financial assets at FVTOCI | 1,957 | (Note 1) |
| Available-for-sale financial assets | (Note 2) | 2,850 |

| | | |
|---|---|---|
| Financial assets measured at amortized cost: | | |
| Cash and cash equivalents (exclude cash on hand) | 278,972 | (Note 1) |
| Financial assets measured at amortized cost | 6,714 | (Note 1) |
| Notes receivable | 3,735 | (Note 1) |
| Accounts receivables (including related parties) | 851,616 | (Note 1) |
| Other receivables (including related parties) | 7,647 | (Note 1) |
| Sub-total | 1,148,684 | (Note 1) |
| Loans and receivables: | | |
| Cash and cash equivalents (exclude cash on hand) | (Note 1) | 266,777 |
| Bond investments with no active market | (Note 1) | 6,705 |
| Notes receivable | (Note 1) | 2,912 |
| Accounts receivables (including related parties) | (Note 1) | 600,954 |
| Other receivables (including related parties) | (Note 1) | 13,533 |
| Sub-total | (Note 1) | 890,881 |
| Total | $1,150,681 | $893,811 |

Financial liabilities

| | 2018.12.31 | 2017.12.31 |
|---|---|---|
| Financial liabilities measured at amortized cost: | | |
| Short-term loans | $743,619 | $500,000 |
| Short-term notes and bills payable | 49,984 | - |
| Receivables (including related parties) | 298,210 | 355,759 |
| Bonds payable (including bonds due within one year) | 391,223 | 385,713 |
| Long-term loans (including loans due within one year) | 450,889 | 193,749 |
| Total | $1,933,925 | $1,435,221 |

Note:

1. The Corporation has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

2. Financial assets measured at cost are included in the numbers as of December 31, 2017.

2. Financial risk management objectives and policies

The Corporation's principal financial risk management objective is to manage the market risk, credit risk, and liquidity risk related to its operating activates. The Corporation identifies measures and manages the aforementioned risks based on the Corporation's policy and risk appetite.

The Corporation has established appropriate policies, procedures and internal controls for the aforementioned financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Corporation shall comply with its financial risk management policies while managing its financial activities.

3. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market risks comprise currency risk, interest rate risk, and other price risk (such as equity instruments).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable. There are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Corporation's exposure to the risk of changes in foreign exchange rates relates primarily to the Corporation's operating activities (when revenue or expense are denominated in a different currency from the Corporation's functional currency) and the Corporation's net investments in foreign operations.

The Corporation has certain foreign currency receivables denominated in the same foreign currency as certain foreign currency payables; therefore, natural hedge is achieved. The Corporation also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as the said nature hedge and forward contracts do not qualify for hedge accounting criteria. Furthermore, as net investments in foreign operations are for strategic purposes, they are not hedged by the Corporation.

The foreign currency sensitivity analysis of the impact of possible changes in foreign exchange rates on the Corporation's profit and equity is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Corporation's foreign currency risk is mainly related to the volatility in the exchange rate of U.S. dollars. The sensitivity analysis is as follows:

When NT dollar appreciates/depreciates against US dollars by 1%, the Corporation's profit or loss for the years ended December 31, 2018 and 2017 will increase/decrease by NT$2,018 thousand and NT$2,677 thousand, respectively.

When NT dollar appreciates/depreciates against RMB by 1%, the Corporation's profit or loss for the years ended December 31, 2018 and 2017 will increase/decrease by NT$3,132 thousand and NT$953 thousand, respectively.

When NT dollar appreciates/depreciates against Euro by 1%, the Corporation's profit or loss for the years ended December 31, 2018 and 2017 will increase/decrease by NT$3,128 thousand and NT$2,741 thousand, respectively.

Interest rate risks

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's exposure to the interest rate risk relates primarily to its investments with variable interest rates and bank loans with fixed and variable interest rates.

The Corporation manages its interest rate risk by applying a balanced portfolio of fixed and variable interest rates and entering into interest rate swaps. As those transactions do not qualify for hedge accounting, hedge account is not adopted.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period, including investments and loans with variable interest rates and interest rate swaps. During a reporting period, when interest rate increases/decreases by 10 basis points, the Corporation's profit or loss for the years ended December 31, 2018 and 2017 will decrease/increase by NT$959 thousand and NT$421 thousand, respectively.

Equity price risk

The fair value of unlisted equity securities held by the Corporation is susceptible to equity price risk arising from uncertainties about future values of the investment securities. The Corporation's unlisted equity securities include ones at fair value through profit or loss or other comprehensive income (Those were available-for-sale as of December 31, 2017). The Corporation manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on equity portfolio are submitted to the Corporation's senior management on a regular basis. The Board of Directors shall review all equity investment decisions and approve where appropriate.

4. Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract and result in a financial loss. The Corporation is exposed to credit risk from operating activities (primarily for contract assets and accounts and notes receivable) and financing activities (primarily for bank deposits and various financial instruments).

The Corporation manages its credit risk in accordance with its credit risk policies, procedures and controls. Credit risk of all counterparties is assessed by considering their financial position, rating from credit rating agencies, past experience, current economic environment and the Corporation's internal rating criteria, etc. Certain customer's credit risk will also be managed by using credit enhancement tools, such as prepayments or insurances, to reduce their credit risk.

As of December 31, 2018 and 2017, the Corporation's total ten contract assets and receivables from customers accounted for 77% and 79% of the Corporation's overall contract assets and receivables, respectively. The credit concentration risk for the rest of contract assets and receivables was relatively insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Corporation's treasury in accordance with the Corporation's policy. The Corporation only transacts with counterparties approved by the internal control procedures, which are banks with good credit ratings, and financial institutions, companies and government entities with investment grade ratings. Consequently, there is no significant credit risk.

5. Liquidity risk management

The Corporation maintains its financial flexibility through the use of cash and cash equivalents, bank loans and convertible bonds. The table below summarizes the maturity profile of the Corporation's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted interest payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

| | < 1 year | 2 to 3 years | 4 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| 2018.12.31 | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Loans | $786,601 | $203,217 | $64,313 | $140,377 | $1,194,508 |
| Short-term notes and bills payable | 49,984 | - | - | - | 49,984 |
| Payables | 298,210 | - | - | - | 298,210 |
| Convertible bonds | - | 391,223 | - | - | 391,223 |
| | | | | | |
| 2017.12.31 | | | | | |
| Loans | $557,864 | $67,251 | $21,275 | $47,359 | $693,749 |
| Payables | 355,759 | - | - | - | 355,759 |
| Convertible bonds | - | 385,713 | - | - | 385,713 |

6. Reconciliation of liabilities from financing activities

Reconciliation of liabilities from January 1 to December 31, 2018:

| | Short-term loans | Short-term notes and bills payable | Long-term loans | Bonds payable | Total liabilities from financing activities |
|---|---|---|---|---|---|
| 2018.1.1 | $500,000 | $- | $193,749 | $385,713 | $1,079,462 |
| Cash flows | 243,619 | 49,984 | 257,140 | - | 550,743 |
| Non-cash changes | - | - | - | 5,510 | 5,510 |
| 2018.12.31 | $743,619 | $49,984 | $450,889 | $391,223 | $1,635,715 |

Reconciliation of liabilities from January 1 to December 31, 2017:

No applicable.

7. Fair values of financial instruments

(1) The methods and assumptions applied in determining the fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions are used by the Corporation in measuring or disclosing the fair values of financial assets and liabilities:

A. The carrying amount of cash and cash equivalents, receivables, payables and other current liabilities approximate their fair value due to short maturity terms.

B. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (e.g. listed equity securities, beneficiary certificates, bonds and futures).

C. Fair value of equity instruments with no active market (including private placement of listed equity securities, equity securities of public companies with no active market and equity securities of private companies) are estimated using the market approach based on prices from market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and price-book ratio of similar entities).

D. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on quotations from counterparties or valuation method. The valuation method uses DCF method as a basis, and assumptions of interest rate and discount rate are primarily based on relevant information of similar instruments (such as yield curves published by the Taipei Exchange, fixing rate of commercial paper published by Reuters and credit risk, etc.)

E. The fair value of derivative financial instruments, which are not options and without market quotations, is determined based on quotations from counterparties or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the quotations from counterparties, appropriate option pricing model (e.g. Black-Scholes model) or other valuation method (e.g. Monte Carlo Simulation).

(2) Fair value of financial instruments measured at amortized cost

Except for cash and cash equivalents, receivables, payables and other current liabilities whose carrying amount approximate their fair value, the fair value of the Corporation's financial assets and financial liabilities measured at amortized cost is listed in the table below:

| | Carrying amount | | Fair Value | |
|---|---|---|---|---|
| | 2018.12.31 | 2017.12.31 | 2018.12.31 | 2017.12.31 |
| Financial assets | | | | |
| Financial assets measured at amortized cost | $6,714 | (Note) | $6,714 | (Note) |
| Bond investments with no active | (Note) | $6,705 | (Note) | $6,705 |

| | Carrying amount | | Fair Value | |
|---|---|---|---|---|
| | 2018.12.31 | 2017.12.31 | 2018.12.31 | 2017.12.31 |
| market | | | | |
| Financial liabilities | | | | |
| Long-term loans | $450,889 | $193,749 | $450,889 | $193,749 |
| Bonds payable | 391,223 | 385,713 | 391,223 | 385,713 |

Note: The Corporation has adopted IFRS 9 since January 1, 2018, and chose not to restate the comparative period based on the transitional provisions in IFRS 9.

(3) Fair value hierarchy for financial instruments

Please refer to Note 12(9) for details on the fair value hierarchy for financial instruments of the Corporation.

8. Derivative financial instruments

As of December 31, 2018 and 2017, the Corporation's derivative financial instruments (including embedded derivatives) that were not eligible for hedge accounting and were outstanding are listed as follows:

Embedded derivatives

Embedded derivatives identified through the issuance of convertible bonds are already detached from the main contract and accounted for as at fair value through profit or loss. Please refer to Note 6(15) for details on contract information of those transactions.

For forward exchange contracts, the main purpose is to hedge the foreign currency risk of net assets or liabilities denominated in foreign currencies. As there will be corresponding cash inflows or outflows upon expiration and the Corporation has sufficient operation funds, no significant cash flow risk is expected.

9. Fair value hierarchy

(1) Definition of fair value hierarchy

For assets and liabilities measured or disclosed in fair values, they are categorized in the level of the lowest level input that is significant to the entire measurement. Inputs of each level are as follows:

Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities at the measurement date

Level 2 inputs are inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 inputs are unobservable inputs for the asset or liability

For assets and liabilities measured at a recurring basis, their categories shall be re-evaluated at the end of each reporting period to determine if there is any transfer between different levels of fair value hierarchy.

(2) Hierarchy of fair value measurement

The Corporation does not have assets that are measured at fair value on a non-recurring basis. The fair value hierarchy of assets and liabilities measured at a recurring basis was disclosed as follows:

December 31, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets measured at fair value: | | | | |
| Financial assets at FVTPL | | | | |
| Convertible bonds with embedded derivative financial instruments | $- | $40 | $- | $40 |
| Financial assets at FVTOCI - non-current | - | 1,957 | - | 1,957 |

December 31, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets measured at fair value: | | | | |
| Financial assets at FVTPL | | | | |
| Convertible bonds with embedded derivative financial instruments | $- | $80 | $- | $80 |

Transfers between Level 1 and Level 2 fair value hierarchy

For the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value hierarchy for the Corporation's assets and liabilities measured at fair value on a recurring basis.

(3) Fair value hierarchy of the Corporation's assets and liabilities not measured at fair value but for which the fair value shall be disclosed

December 31, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Liabilities not measured at fair value but for which the fair value is disclosed: | | | | |
| Long-term loans | $- | $- | $450,889 | $450,889 |
| Short-term notes and bills payable | - | - | 49,984 | 49,984 |
| Bonds payable | - | 391,223 | - | 391,223 |

December 31, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Liabilities not measured at fair value but for which the fair value is disclosed: | | | | |
| Long-term loans | $- | $- | $193,749 | $193,749 |
| Bonds payable | - | 385,713 | - | 385,713 |

10. Significant financial assets and liabilities denominated in foreign currencies

Information regarding significant financial assets and liabilities denominated in foreign currencies is listed below:

Unit: thousands

| | 2018.12.31 | | |
|---|---|---|---|
| | Foreign currency | Exchange rates | NT$ |
| Financial assets | | | |
| Monetary items: | | | |
| USD | $7,030 | 30.6650 | $215,570 |
| EUR | 10,193 | 35.0000 | 356,764 |
| JPY | 113,375 | 0.2762 | 31,314 |
| CHF | 330 | 31.0400 | 10,253 |
| CNY | 70,786 | 4.4470 | 314,787 |
| GBP | 32 | 38.6700 | 1,247 |

| | 2018.12.31 | | |
|---|---|---|---|
| | Foreign currency | Exchange rates | NT$ |
| Financial liabilities | | | |
| Monetary items: | | | |
| USD | $449 | 30.7650 | $13,806 |
| EUR | 1,241 | 35.4000 | 43,919 |
| JPY | 1,949 | 0.2802 | 546 |
| CHF | 26 | 31.3300 | 818 |
| CNY | 358 | 4.4970 | 1,608 |
| GBP | - | 39.0900 | - |
| CAD | 25 | 22.6900 | 567 |

| | 2017.12.31 | | |
|---|---|---|---|
| | Foreign currency | Exchange rates | NT$ |
| Financial assets | | | |
| Monetary items: | | | |
| USD | $9,498 | 29.710 | $282,179 |
| EUR | 8,232 | 35.370 | 291,177 |
| JPY | 49,688 | 0.262 | 13,028 |
| CHF | 1,212 | 30.310 | 36,751 |
| CNY | 24,881 | 4.540 | 112,959 |
| GBP | 62 | 39.900 | 2,481 |
| | | | |
| Financial liabilities | | | |
| Monetary items: | | | |
| USD | $487 | 29.810 | $14,505 |
| EUR | 477 | 35.770 | 17,059 |
| JPY | 260 | 0.266 | 69 |
| CHF | 26 | 30.600 | 796 |
| CNY | 3,852 | 4.590 | 17,682 |
| GBP | 1 | 40.320 | 29 |

As entities within the Corporation transact in various currencies, the exchange gain (loss) of monetary financial assets and liabilities cannot be disclosed by currencies of significant influence. For the years ended December 31, 2018 and 2017, the Corporation's foreign exchange gain (loss) amounted to NT$(106) thousand and NT$(9,936) thousand, respectively.

The above information is disclosed based on the carrying amount of foreign currency (already converted to the functional currency).

11. Capital management

The primary objective of the Corporation's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Corporation manages and adjusts its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Corporation may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

## XIII. Additional disclosures

1. Information on significant transactions

   (1) Capital financing to others: Please refer to Table 1

   (2) Endorsements/Guarantees for others: Please refer to Table 2.

   (3) Marketable securities held at the end of period (excluding investments in subsidiaries, associates and joint ventures): Please refer to Table 3.

   (4) Individual securities acquired or disposed of with accumulated amount of at least NT$300 million or 20 percent of the paid-in capital for the period: None.

   (5) Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the period: None.

   (6) Disposal of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the period: None.

   (7) Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the period: Please refer to Table 4.

   (8) Accounts receivable from related parties of at least NT$100 million or 20 percent of the paid-in capital at the end of the period: Please refer to Table 5.

   (9) Engaging in trading of derivatives: Please refer to Notes 6(2), 6(15) and 12 of the consolidated financial statements.

2. Information on investees: Please refer to Table 6.

3. Information on investments in China: Please refer to Table 7.

(All amounts expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 1. Capital financing to others as at December 31, 2018:

Unit: NT$1,000

| No. | Lender | Borrower | Item | Whether the recipient is a related party | Highest amount in current period | Balance at the end of the period (approved by the Board of Directors) | Actual expenditures | Interest range | Capital financing feature | Amount of transaction | Reason for short-term financing | Appropriated allowance for doubtful accounts | Collateral | | Cap of capital financing for individual parties | Total loan limit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | Name | Value | | |
| 0 | United Orthopedic Corporation | UOC America Holding Corporation | Account receivable - stakeholder | Yes | $30,000 | $30,000 | $- | 0.7928%~1.55% | Business features | $102,961 | None | $- | None | $- | $102,961 | $241,353 |
| 0 | United Orthopedic Corporation | United Orthopedic Corporation (Suisse) SA | Account receivable - stakeholder | Yes | 93,465 | 93,465 | - | 0.7928%~1.55% | Business features | 252,692 | None | - | None | - | 241,353 | 241,353 |
| 1 | UOC America Holding Corporation | UOC USA, Inc. | Account receivable - stakeholder | Yes | 30,000 | 30,000 | - | 0.7928%~1.55% | Business features | 104,066 | None | - | None | - | 104,066 | 120,676 |
| 2 | United Orthopedic Corporation (Suisse) SA | United Orthopedic Corporation (France) | Account receivable - stakeholder | Yes | 84,119 | 84,119 | - | 0.7928%~1.55% | Business features | 173,388 | None | - | None | - | 120,676 | 120,676 |

Note 1: The Company's cap of financing and borrowings shall not exceed 30% of the Company's paid-up capital.
Note 2: Financing to an individual party shall be limited within the bilateral business transaction amount over the last year.
Note 3: The subsidiary's cap of financing and borrowings shall not exceed 15% of the company's paid-up capital.

Notes for individual financial statements of United Orthopedic Corporation (continued)
(All amounts expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 2. Endorsements/Guarantees for others as at December 31, 2018:

Unit: NT$1,000

| No. | Name of company providing endorsements/guarantees | Recipient of endorsements/guarantees | | Limits on endorsements/guarantees for a single enterprise | Highest endorsement/ guarantee for the current period balance | Endorsements/ guarantees balance at the end of the period | Actual expenditures | Property-secured endorsement/guarantee amount | Accumulated endorsement/guarantee amount to net worth in the financial statements | Maximum endorsement/ guarantee amount | Endorsements/ guarantees provided by parent company to subsidiaries | Endorsements/ guarantees provided by subsidiaries to parent company | Endorsements/ Guarantees for entities in Mainland China |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Company name | Relationship | | | | | | | | | | |
| 0 | United Orthopedic Corporation | UOC USA, Inc. | Wholly owned sub-subsidiary | $241,353 | $224,963 | $224,963 | $194,968 | $- | 10.25% | $402,254 | Y | N | N |

Note 1: The Company's total sum of endorsements/guarantees shall not exceed 50% of the Company's paid-up capital; to an individual enterprise, the endorsement or guarantee shall not exceed 30% of the company's paid-up capital.

Table 3: Marketable securities held at the end of current period (excluding investments in subsidiaries, associates and joint ventures) as of December 31, 2018:

Unit: NT$1,000

| Company holding shares | Type and name of securities (Note 1) | Relationship with the issuer of securities (Note 2) | Accounting item | End of the period | | | | Remark(Note 4) |
|---|---|---|---|---|---|---|---|---|
| | | | | Number of shares (thousand | Carrying Amount (Note 3) | Shareholding Ratio | Fair value | |
| United Orthopedic Corporation | Changgu Biotech Corporation | The Company is a shareholder of the Company. | Equity instrument investment in measured at fair value through other comprehensive profit and loss - non-current | 478 | $1,957 | 19.26% | $1,957 | None |

Note 1: The term "marketable securities" as used in this table refers to stocks, bonds, beneficiary certificates, and securities specified in IFRS 9.
Note 2: If the issuer is not a related party, this field is not required.
Note 3: For accounts measured at fair value, please fill in the carrying amount after adjustment to fair value and deduct the accumulated impairment of the book value. If the carrying amount is not measured at fair value, please fill in the carrying amount based on the original acquisition cost or amortized cost deducted by the cumulative impaired balance on the account.
Note 4: If the securities listed are restricted by the provision of guarantees, the pledge of loans or other regulations, the number of shares guaranteed or pledged and the usage and restrictions of the loan shall be specified in the Remark column.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 4: Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital

Unit: NT$1,000

| Buyer/seller company | Counterparty | Relationship | Trade Details | | | | Unusual trade conditions and its reasons | | Bills and accounts receivable (payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase (sales) | Amount | Percentage of total purchases (sales) (%) | Credit period | Unit price | Credit period | Balance | Ratio to total receivable (payable) (%) | |
| United Orthopedic Corporation | UOC America Holding Corporation | Parent/Subsidiary Company | Sales | $102,961 | 5.75% | 90 days | Note | Note | $46,086 | 5.34% | |
| United Orthopedic Corporation | United Orthopedic Corporation (Suisse) SA | Parent/Sub-subsidiary | Sales | $252,692 | 14.12% | 120 days | Note | Note | $326,686 | 37.88% | |
| United Orthopedic Corporation | United Medical Instrument Co., Ltd. | Affiliate company | Sales | $394,665 | 22.06% | 90 days | Note | Note | $182,817 | 21.20% | |
| UOC America Holding Corporation | UOC USA, Inc. | Subsidiary/Sub-subsidiary Company | Sales | $104,066 | 99.23% | 90 days | Note | Note | $46,223 | 100.00% | |
| United Orthopedic Corporation (Suisse) SA | United Orthopedic Corporation (France) | Affiliate company | Sales | $173,388 | 81.86% | 90 days | Note | Note | $120,116 | 96.26% | |
| United Orthopedic Corporation | United Medical Instrument Co., Ltd. (Shanghai) Co., Ltd. | Affiliate company | Sales | $99,215 | 5.54% | 90 days | Note | Note | $100,266 | 11.63% | |
| United Orthopedic Corporation | United Medical Co., Ltd. | Affiliate company | Purchase | $26,730 | 5.59% | 90 days | Note | Note | | 0.00% | |
| UOC America Holding Corporation | UOC USA, Inc. | Subsidiary/Sub-subsidiary Company | Sales | $38,072 | 36.30% | 90 days | Note | Note | $83,413 | 180.46% | |
| United Orthopedic Corporation (Suisse) SA | United Orthopedic Corporation (France) | Affiliate company | Sales | $85,326 | 40.28% | 90 days | Note | Note | $194,700 | 156.03% | |
| | | | | The difference is attributed to Hsiao Chuan's use of the average combined exchange rate on December 31. | | | | | | | |
| A-SPINE Asia Co., Ltd. | Pauline Medical Co., Ltd. | Subsidiary/Sub-subsidiary Company | Sales | #REF! | #REF! | 90 days | Note | Note | #REF! | #REF! | |

Note: There is no significant difference from the normal trade.

Notes for individual financial statements of United Orthopedic Corporation (continued)
(All amounts expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 5: Accounts receivable from related parties of at least NT$100 million or 20 percent of the paid-in capital as of December 31, 2018

Unit: NT$1,000

| Company with accounts receivable | Related Party | Relationship | | Turnover rate | Overdue accounts | | Amount received from related parties | Amount of allowance for |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Handling method | | |
| United Orthopedic Corporation | UOC America Holding Corporation | Parent/Subsidiary Company | #REF! (Note 1) | #REF! | $- | - | $25,790 | $- |
| United Orthopedic Corporation | United Orthopedic Corporation | Parent/Sub-subsidiary | $326,686 (Note 1) | 0.91 | $- | - | $20,967 | $- |
| UOC America Holding Corporation | UOC USA, Inc. | Subsidiary/Sub-subsidiary Company | #REF! (Note 1) | #REF! | - | - | - | - - |
| United Orthopedic Corporation | United Medical Instrument Co., | Affiliate company | 182,817 (Note 1) | 2.98 | - | - | 140,389 | - |
| United Orthopedic Corporation (Suisse) SA | United Orthopedic Corporation (France) | Affiliate company | 120,116 (Note 1) | 1.34 | - | - | 28,160 | - |

Note 1: Receivables - related parties

Notes for individual financial statements of United Orthopedic Corporation (continued)

(All amounts expressed in thousands of New Taiwan Dollars unless otherwise specified)

Attached table 6: Related information on re-investment businesses:

Unit: NTD 1,000/USD 1,000/CHF 1,000/EUR 1,000/JPY 1,000

| Investment company name | Investee company name | Location | Main business items | Original investment amount | | Holding at the end of the period | | | Current (loss) gain from investee companies | Investment (loss) gain recognized in current period | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | End of the current period | End of previous year | Number of Shares | Ratio | Carrying amount | | | |
| United Orthopedic Corporation | United Medical (B.V.I.) Corporation | British Virgin Islands | Holding company, trading | $-<br>(Note 1) | $360,194<br>(USD 11,400) | $-<br>(Note 1) | -<br>(Note 1) | $-<br>(Note 1) | $(488) | $(488) | Subsidiary |
| United Orthopedic Corporation | UOC America Holding Corporation | British Virgin Islands | Holding company, trading | 232,933<br>(USD 7,500) | 139,768<br>(USD 4,500) | 7,500<br>(Note 8) | 100% | 21,781 | (86,263) | (86,263) | Subsidiary |
| United Orthopedic Corporation | UOC Europe Holding SA | Switzerland | Holding Company | 358,430<br>(CHF 11,500) | 121,089<br>(CHF 3,750) | 11,500<br>(Note 3) | 96% | 142,108 | (16,731) | (51,794) | Subsidiary |
| United Orthopedic Corporation | United Biomech Japan | Japan | Trading, wholesale | 58,261<br>(JPY 204,000) | 32,047<br>(JPY 106,500) | 2,040<br>(Note 5) | 53% | (2,914) | (44,357) | (23,220) | Subsidiary |
| United Orthopedic Corporation | A-SPINE Asia Co., Ltd. | Taiwan | Trade, wholesale, manufacture | 650,480 | 613,440 | 12,172,400<br>(Note 6) | 99.4% | 648,741 | 50,105 | 41,965 | Subsidiary |
| United Medical (B.V.I.) Corporation | Lemax Co., Ltd. | British Virgin Islands | Holding Company | -<br>(Note 1) | 360,194<br>(USD 11,400) | -<br>(Note 1) | -<br>(Note 1) | -<br>(Note 1) | (1,001) | (1,001) | Sub-subsidiary |
| UOC America Holding Corporation | UOC USA, Inc. | USA | Trading, wholesale | 232,933<br>(USD 7,500) | 139,768<br>(USD 4,500) | 1,500<br>(Note 2) | 100% | 89,221 | (88,535) | (88,535) | Sub-subsidiary |
| UOC Europe Holding SA | United Orthopedic Corporation (Suisse) SA | Switzerland | Trading, wholesale | 49,987<br>(CHF 1,550) | 39,309<br>(CHF 1,200) | 1,550<br>(Note 3) | 100% | 58,631 | 8,823 | 8,823 | Sub-subsidiary |
| UOC Europe Holding SA | United Orthopedic Corporation (France) | France | Trading, wholesale | 245,891<br>(EUR 6,900) | 94,884<br>(EUR 2,606) | 6,900<br>(Note 4) | 100% | 194,236 | (19,106) | (19,106) | Sub-subsidiary |
| A-SPINE Asia Co., Ltd. | Boiling Medical Co., Ltd. | Taiwan | Trading, wholesale | 4,800 | 4,800 | 480,000<br>(Note 7) | 100% | 11,229 | 235 | 235 | Sub-subsidiary |

Note 1: Liquidation completed on September 30, 2018.

Note 2: The face value per share is USD 5,000.

Note 3: The face value per share is CHF 1,000.

Note 4: The face value per share is EUR 1,000.

Note 5: The face value per share is JPY 50,000.

Note 6: The face value per share is TWD 10, and the per share purchase price is TWD 60.

Note 7: The face value per share is TWD 10.

Note 8: The face value per share is USD 1,000.

Notes for individual financial statements of United Orthopedic Corporation (continued)
(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Attached table 7. Disclosure of related information on investments in China

Unit: NTD thousand/USD thousand

| Name of investee company in China | Main business items | Actual paid-in capital | Investment method | Cumulative investment remitted from Taiwan at the beginning of the period | Amount remitted from Taiwan or recollected as of current period | | Cumulative investment remitted from Taiwan at the end of the current period | Current (loss) gain from investee companies | The Company's shareholding ratio through direct or indirect investments | Profit or loss for the current period | Carrying amount of investment | Accumulated Repatriation of Investment Income as of the end of the period. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Remit | Recollect | | | | | | |
| Shinva United Orthopedic Corporation | Plant and joint production and sales | The registered capital is RMB 200 million | (Note 1) | $487,520<br>(CNY 98,000 thousand) | $- | $- | $487,520<br>(CNY 98,000 thousand)<br>(Note 2) | $(11,622) | 49% | $(5,694) | $378,707 | $- |
| United Medical Co., Ltd. | Artificial implants, medical devices and manufacturing equipment, artificial joints | The registered capital is US$5.2 million | (Note 2) | 159,690<br>(USD 5,000 thousand) | - | 159,690<br>(USD 5,000 thousand) | - | - | - | - | - | - |

| Cumulative investment remitted from Taiwan to Mainland China as of the end of the period | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs | Ceiling on investment in Mainland China imposed by the Investment Commission of the Ministry of Economic Affairs |
|---|---|---|
| $487,520<br>(CNY 98,000 thousand) | $487,520<br>(CNY 98,000 thousand) | $1,339,090 |

Note 1: Direct investment in China.
Note 2: Including technical value of RMB 30,000 thousand.

Notes for individual financial statements of United Orthopedic Corporation (continued)
(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Appendix 7-1. Significant transactions of the third region businesses and reinvested Chinese companies that is directly or indirectly invested by the company are listed as below:

(1) Purchase amount and percentage, and ending accounts receivable balances and percentage:

Unit: NT$1,000

| Year | Related Party | Company name | Purchase amount | Percentage to the company's purchase | Ending accounts receivable balances | Percentage % |
|---|---|---|---|---|---|---|
| 2018 | United Orthopedic Corporation | United Medical Co., Ltd. | $70,797 | 14.80% | $1,364 | 2.36% |

(2) Sale amount and percentage, and ending accounts receivable balances and percentage:

| Year | Related Party | Company name | Sales amount | Percentage to the company's sales | Ending accounts receivable balances | Percentage % |
|---|---|---|---|---|---|---|
| 2018 | United Orthopedic Corporation | United Medical Technology (Shanghai) Co., Ltd. | 4,667 | 0.26% | 4,699 | 0.54% |
| 2018 | United Orthopedic Corporation | United Medical Instrument Co., Ltd. | 394,665 | 22.06% | 182,817 | 21.20% |
| 2018 | United Orthopedic Corporation | United Medical Co., Ltd. | 22,144 | 1.24% | 268 | 0.03% |
| 2018 | United Orthopedic Corporation | Shinva United Orthopedic Corporation | 26,035 | 1.45% | 15,427 | 1.79% |

(3) Ending balance of endorsement, guarantee or collateral provided and purposes:

None

(4) Maximum balance of financing, ending balance, interest rate range and total interest in the period:

None

(5) Other transactions that have significant impact on the balance of the current period and financial status:

None

## VI. Any financial difficulties experienced by the Corporation and its affiliates during the most recent year and as of the publication date of this report, as well as the impact of the said difficulties on the financial condition of this Corporation shall be listed: None.

# Chapter 7 Review and Analysis of Financial Status and Financial Performance and Risk Assessment Matters

## I. Analysis of financial status

### Consolidated Financial Statement

Comparative analysis of financial conditions

Unit: NT$1,000

| Item \ Year | 2018 | 2017 | Increases (decreases) | Increase/decrease ratio (%) |
|---|---|---|---|---|
| Current assets | 2,381,014 | 1,991,021 | 389,993 | 19.59 |
| Equity-accounted investments | 378,707 | 407,565 | (28,858) | -7.08 |
| Property, plant and equipment | 1,491,953 | 1,360,136 | 131,817 | 9.69 |
| Intangible assets | 471,893 | 434,988 | 36,905 | 8.48 |
| Other assets (Note 1) | 126,265 | 101,701 | 24,564 | 24.15 |
| Total assets | 4,849,832 | 4,295,411 | 554,421 | 12.91 |
| Current liabilities | 1,600,383 | 1,319,631 | 280,752 | 21.28 |
| Non-current liabilities | 999,091 | 757,656 | 241,435 | 31.87 |
| Total liabilities | 2,599,474 | 2,077,287 | 522,187 | 25.14 |
| Capital | 804,509 | 797,129 | 7,380 | 0.93 |
| Capital surplus | 1,280,536 | 1,243,611 | 36,925 | 2.97 |
| Retained earnings | 242,255 | 216,990 | 25,265 | 11.64 |
| Other equity | (95,482) | (52,815) | (42,667) | 80.79 |
| Non-controlling equity | 18,540 | 13,209 | 5,331 | 40.36 |
| Total equity | 2,250,358 | 2,218,124 | 32,234 | 1.45 |

Note 1: Other assets include non-current financial assets at fair value through profit or loss, financial assets in other comprehensive income measured at fair value through profit and loss, financial assets carried at amortized cost, financial assets carried at cost, investments in bond instruments with no active market, deferred income tax assets, and other non-current assets.

- Change analysis for the Increase/decrease ratio that is more than 20% for the most recent two years

  Increase of other assets: This is mainly due to the increase of deferred income tax assets and guarantee deposits paid for this period in comparison with last year.

  Increase of current liabilities: This is mainly due to the increase of short-term loans for this period in comparison with last year.

  Increase of current liabilities: This is mainly due to the increase of long-term loans for this period in comparison with last year.

  Increase in total liabilities: This is mainly due to the increase in long-term and short-term loans.

  Increase in other equity: This is mainly due to the unearned remuneration for employees from restricted employee shares that were implemented during the current year.

  Increase in non-controlling equity: This is mainly due to the changes in shareholding of the subsidiaries in Europe, Japan, and subsidiaries of A-SPINE Asia Co., Ltd. and changes in cumulative conversion adjustments.

- Impact of changes in the financial status for the most recent two years: No significant impact on the financial status.
- Future response plan: not applicable.

## Individual Financial Statement

Comparative analysis of financial conditions

Unit: NT$1,000

| Item \ Year | 2018 | 2017 | Increases (decreases) | Increase/decrease ratio (%) |
|---|---|---|---|---|
| Current assets | 1,873,328 | 1,520,576 | 352,752 | 23.20 |
| Equity-accounted investments | 1,191,337 | 1,151,189 | 40,148 | 3.49 |
| Property, plant and equipment | 1,027,850 | 1,008,602 | 19,248 | 1.91 |
| Intangible assets | 76,478 | 37,583 | 38,895 | 103.49 |
| Other assets (Note 1) | 99,527 | 87,895 | 11,632 | 13.23 |
| Total assets | 4,268,520 | 3,805,845 | 462,675 | 12.16 |
| Current liabilities | 1,143,067 | 949,086 | 193,981 | 20.44 |
| Non-current liabilities | 893,635 | 651,844 | 241,791 | 37.09 |
| Total liabilities | 2,036,702 | 1,600,930 | 435,772 | 27.22 |
| Capital | 804,509 | 797,129 | 7,380 | 0.93 |
| Capital surplus | 1,280,536 | 1,243,611 | 36,925 | 2.97 |
| Retained earnings | 242,255 | 216,990 | 25,265 | 11.64 |
| Other equity | (95,482) | (52,815) | (42,667) | 80.79 |
| Total equity | 2,231,818 | 2,204,915 | 26,903 | 1.22 |

Note 1: Other assets include non-current financial assets at fair value through profit or loss, financial assets in other comprehensive income measured at fair value through profit and loss, financial assets carried at amortized cost, financial assets carried at cost, investments in bond instruments with no active market, deferred income tax assets, and other non-current assets.

- Change analysis for the Increase/decrease ratio that is more than 20% for the most recent two years

  Increase in current assets: This is mainly due to increase in revenue from accounts receivable, accounts receivable related parties, and the Japanese subsidiary's acquisition of hip joint certification in the current year which resulted in increased inventory.

  Increase in intangible assets: This is mainly due to the capitalization of the Company's research and development expenditures in the current year according to Paragraph 57 of IAS 38 "Intangible Assets."

  Increase of current liabilities: This is mainly due to the increase of short-term loans for this period in comparison with last year.

  Increase of current liabilities: This is mainly due to the increase of long-term loans for this period in comparison with last year.

  Increase in total liabilities: This is mainly due to the increase in long-term and short-term loans.

  Increase in other equity: This is mainly due to the unearned remuneration for employees from restricted employee shares that were implemented during the current year.

- Impact of changes in the financial status for the most recent two years: No significant impact on the financial status.

- Future response plan: not applicable.

## II. Financial performance

### Consolidated Financial Statement

Comparison and analysis table for financial performance

Unit: NT$1,000

| Item \ Year | 2018 | 2017 | Increases (decreases) | Proportion of the changes (%) |
|---|---|---|---|---|
| Net revenue | 2,332,247 | 1,972,592 | 359,655 | 18.23 |
| Operating costs | 716,500 | 542,968 | 173,532 | 31.96 |
| Gross profit before adjustment | 1,615,747 | 1,429,264 | 186,123 | 13.02 |
| Realized (unrealized) sales profit and loss | (14,261) | (7,193) | (7,068) | 98.26 |
| Gross profit | 1,601,486 | 1,422,431 | 179,055 | 12.59 |
| Operating expenses | 1,516,686 | 1,260,495 | 256,191 | 20.32 |
| Operating profit | 84,800 | 161,936 | (77,136) | -47.63 |
| Non-operating income and expenses | 22,649 | 3,726 | 18,923 | 507.86 |
| Net income before tax | 107,449 | 165,662 | 58,213 | 35.14 |
| Income tax expense | (4,957) | (54,723) | (49,766) | -90.94 |
| Current period net profit | 102,492 | 110,939 | (8,447) | -7.61 |
| Other comprehensive income or loss (net value after tax) in this period | (13,412) | (17,224) | 3,812 | -22.13 |
| Total amount of comprehensive profit/loss in the year | 89,080 | 93,715 | (4,635) | -4.95 |
| Net profits that belong to parent company for the current period | 127,554 | 130,264 | (2,710) | -2.08 |
| Total net profits and losses that belong to parent company for the current period | 113,818 | 113,429 | 389 | 0.34 |

- Change analysis for the Increase/decrease ratio that is more than 20% for the most recent two years

  Increase in operating costs: This is mainly due to the acquisition of A-SPINE Asia Co., Ltd. whose shares were acquired in April last year and the increase in prices of raw materials in the second half of the year which resulted in an increase in operating costs.

  Increase in realized (unrealized) sales profit and loss: This is mainly due to the increase in shareholding percentage of subsidiaries in Europe and Japan in the current year. The unsettled realized (unrealized) sales profit and loss thus changed based on the shareholding ratio.

  Increase in operating expenses: This is mainly due to the expansion of the business and management of its subsidiaries, and the acquisition of A-SPINE Asia Co., Ltd. The shares of A-SPINE Asia Co., Ltd. were acquired in April last year and the operating expenses thus increased from the previous year.

  Decrease in operating profit: This is mainly due to the decrease in product prices in China and the increase in the expenses of various business units.

  Increase in non-operating income and expenses: This is mainly due to the relatively low levels of exchange rate fluctuations compared to the previous year. It generated exchange gains as compared to exchange losses in the previous year and thus increased exchange gains.

  Decrease in net profit before tax: This is mainly due to the decrease in product prices in China and the increase in the expenses of various business units.

  Decrease in income tax expenses: This is mainly due to the realized income tax expenses in investments in Mainland China and the reduction in income tax expenses.

  Increase in other comprehensive profits and losses (net amount after tax) for the current period: This is mainly due to the increase of foreign exchange losses in the financial statements of the foreign operations that are invested by the Company.

- Expectations for the sales in the following year and its estimation basis and the main factors for the continuing growth or recession for the sales: Expand in Europe, U.S, Japan, and China market through products of the proprietary brand, and continuous launch of new products is expected to sustain the growth.

- Impact of changes in the financial status for the most recent two years: No significant impact on the financial status.
- Future response plan: not applicable.

Analysis for changes in gross profit: Increase/decrease ratio has not reach 20%, analysis is not needed.

## Individual Financial Statement

### Comparison and analysis table for financial performance

Unit: NT$1,000

| Item \ Year | 2018 | 2017 | Increases (decreases) | Proportion of the changes (%) |
|---|---|---|---|---|
| Net revenue | 1,789,376 | 1,581,054 | 208,322 | 13.18 |
| Operating costs | 823,810 | 668,501 | 155,309 | 23.23 |
| Gross profit before adjustment | 965,566 | 912,553 | 53,013 | 5.81 |
| Realized (unrealized) profits from sales | (50,872) | (71,561) | 20,689 | -28.91 |
| Gross profit | 914,694 | 840,992 | 73,702 | 8.76 |
| Operating expenses | 698,317 | 650,807 | 47,510 | 7.30 |
| Operating profit | 216,377 | 190,185 | 26,192 | 13.77 |
| Non-operating income and expenses | (95,785) | (16,316) | (79,469) | -487.06 |
| Net income before tax | 120,592 | 173,869 | -53,277 | -30.64 |
| Income tax expense | (6,962) | (43,605) | 36,643 | -84.03 |
| Current period net profit | 127,554 | 130,264 | (2,710) | -2.09 |
| Other comprehensive income or loss (net value after tax) in this period | (13,736) | (16,835) | 3,099 | -18.41 |
| Total amount of comprehensive profit/loss in the year | 113,818 | 113,429 | 389 | 0.34 |

- Change analysis for the Increase/decrease ratio that is more than 20% for the most recent two years

  Increase in operating costs: This is mainly due to the increase in prices of raw materials in the second half of the year which resulted in an increase in operating costs.

  Decrease in realized (unrealized) sales profit and loss: This is mainly due to the growth in revenue in the European subsidiary and the increase in shareholding percentage in the current year. The percentage of shareholding in the current year was 75% and it was recognized and settled as 96% this year, thereby decreasing realized (unrealized) sales profit and loss.

  Increase in non-operating income and expenses: This is mainly due to the increase in interest expenses and increase in losses from investment.

  Decrease in net profit before tax: This is mainly due to the increase in expenses from expanding business units and increase in investment loss.

  Decrease in income tax expenses: This is mainly due to the realized income tax expenses in investments in Mainland China and the reduction in income tax expenses.

- Expectations for the sales in the following year and its estimation basis and the main factors for the continuing growth or recession for the sales: Expand in Europe, U.S, Japan, and China market through products of the proprietary brand, and continuous launch of new products is expected to sustain the growth.
- Impact of changes in the financial status for the most recent two years: No significant impact on the financial status.
- Future response plan: not applicable.

Analysis for changes in gross profit: Increase/decrease ratio has not reach 20%, analysis is not needed.

## III. Cash flow

### Consolidated Financial Statement

Cash flow analysis

Unit: NT$1,000

<table>
<tr><th rowspan="2">Cash and cash equivalents at beginning of year</th><th rowspan="2">Annual net cash flow from operating activities</th><th rowspan="2">Net cash inflow from investment and financing activities</th><th rowspan="2">Cash surplus (deficit)</th><th colspan="2">Remedial measures for cash inadequacy</th></tr>
<tr><th>Investing plan</th><th>Financing plan</th></tr>
<tr><td>401,387</td><td>18,354</td><td>108,743</td><td>528,484</td><td>None</td><td>None</td></tr>
</table>

- Analysis of the changes in cash flow this year:

  The cash inflow from operating activities is mainly due to increase in inventories and decrease in profits.

  The cash outflow from investing activities is mainly used for the acquisition of equipment and capitalization of intangible assets for research and development.

  Cash inflows from financing activities are mainly due to increase in short-term and long-term loans. Cash outflows are mainly due to distribution of cash dividends.
- Improvement plans for insufficient liquidity and liquidity analysis: There were no instances of insufficient liquidity.
- Analysis of cash liquidity for the following year: Not applicable.

### Individual Financial Statement

Cash flow analysis

Unit: NT$1,000

<table>
<tr><th rowspan="2">Cash and cash equivalents at beginning of year</th><th rowspan="2">Annual net cash flow from operating activities</th><th rowspan="2">Net cash inflow from investment and financing activities</th><th rowspan="2">Cash surplus (deficit)</th><th colspan="2">Remedial measures for cash inadequacy</th></tr>
<tr><th>Investing plan</th><th>Financing plan</th></tr>
<tr><td>266,901</td><td>13,075</td><td>(295)</td><td>279,681</td><td>None</td><td>None</td></tr>
</table>

- Analysis of the changes in cash flow this year:

  The cash inflow from operating activities was mainly due to the increase in accounts receivable - related parties and losses in inventory and investments.

  The cash outflow from investing activities is mainly used for investments in subsidiaries, acquisition of equipment, and capitalization of intangible assets for research and development.

  Cash inflows from financing activities are mainly due to increase in short-term and long-term loans. Cash outflows are mainly due to distribution of cash dividends.
- Improvement plans for insufficient liquidity and liquidity analysis: There were no instances of insufficient liquidity.
- Analysis of cash liquidity for the following year: Not applicable.

## IV. The impact of major capital expenditures in the most recent year on the Company's finance: None.

## V. Policy on re-investment in other companies, main reasons for profit or losses resulting therefrom, improvement plans and investment plans for the upcoming fiscal year

| Investee company | Holding ratio at the end of the period (%) | Investment policy | Main reason for profits or losses | Improvement plans | Investment plans in the following year |
|---|---|---|---|---|---|
| United Medical (B.V.I.) Co. (Note 1) | 0% | Indirect investments in Mainland China through third region | The majority of the profits of the holding company is sourced from the gains and losses of the investment. | None | None |
| Lemax Company Limited (Note 1) | 0% | Indirect investments in Mainland China through third region | The majority of the profits of the holding company is sourced from the gains and losses of the investment. | None | None |
| UOC America Holding Corporation | 100% | Indirect investments in the U.S. through third region | The majority of the profits of the holding company is sourced from the gains and losses of the investment. | None | None |
| UOC Europe Holding SA | 96% | Indirect investments in Europe through third region | The majority of the profits of the holding company is sourced from the gains and losses of the investment. | None | None |
| United Biomech Japan | 53% | Market proximity | The Group has already obtained the certification for artificial hip joints and still actively pursues registration of other product based on regulations and market expansion. | None | None |
| A-SPINE Asia Co., Ltd. | 99.4% | A-SPINE Asia enters the market of spinal products in response to the Company's strategy for business diversification | and actively expands spinal products in Taiwan and international markets. | None | None |
| Shinva United Orthopedic Corporation | 49% | Shinva United Orthopedic Corporation works with | It has built a comprehensive marketing system and domestic | None | None |

| Investee company | Holding ratio at the end of the period (%) | Investment policy | Main reason for profits or losses | Improvement plans | Investment plans in the following year |
|---|---|---|---|---|---|
| | | Shinva Medical Instrument Co., Ltd to expand the sales of domestic and imported products in the market of China in response to China's Made in China policy. | products to enhance market shares. | | |
| UOC USA, Inc. (Note 2) | 100% | Market proximity | Adopt dealer or direct selling model due to regional characteristics to actively expand the market shares. | None | None |
| United Orthopedic Corporation (Suisse) SA (Note 3) | 100% | Market proximity | Adopt dealer or direct selling model due to regional characteristics to actively expand the market shares. | None | None |
| United Orthopedic Corporation (France) SAS (Note 3) | 100% | Market proximity | Adopt dealer or direct selling model due to regional characteristics to actively expand the market shares. | None | None |
| Pauline Medical Co., Ltd. (Note 4) | 100% | A-SPINE Asia enters the market of spinal products in response to the Company's strategy for business diversification | and actively expands the spine products into the Taiwan market. | None | None |

Note 1: The company was liquidated on September 30, 2018.

Note 2: A re-investment of UOC America Holding Corporation, which is a subsidiary of the Company.

Note 3: A re-investment of UOC Europe Holding SA, which is a subsidiary of the Company.

Note 4: Reinvestment of A-SPINE Asia Co., Ltd., a subsidiary of the Company.

## VI. Risk assessments shall evaluate the following items for the most recent year and up to the publication date of the Annual Report

(I) The Impacts of interest rates, exchange rate fluctuation and inflation situation on the company's profit and loss, and the future countermeasures:

(1) Impact from interest rate changes

The global market has been in a competition of depreciation in recent years, thus the risks are relatively lower. Even though the USD is expected to appreciate, the range would not be too high or too hasty. If there are more significant fluctuations in future interest rates, the Company shall use other capital market fund raising tools to raise funds. We shall closely monitor Interest rate status and consider using fixed or floating Interest rate for loans to hedge against the risks of interest rate fluctuations.

(2) Impact from exchange rate changes

The sales that are denominated in foreign currency accounted for 66.7% of total sales in 2018, and the imported materials that are denominated in foreign currency accounted for 79.3% of total imports. On the whole, the Company relies on the principle of natural hedging and continuously monitors the fluctuation of the market exchange rate, and tries to minimize the possible risks that changes in the exchange rate might do to the Company.

(A) The effect of changes in exchange rates on the Company's revenue for the last three years, as follows:

Unit: NT$1,000; %

| Item \ Year | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net currency exchange gain (loss) | 10,073 | (28,823) | (30,040) |
| Net revenue | 2,332,247 | 1,972,592 | 1,383,340 |
| Operating (loss) gain | 84,800 | 161,936 | 159,686 |
| Net foreign exchange profits (losses) / Net operating income profits (losses) | 0.43% | -1.46% | -2.17% |
| Net foreign exchange profits (losses) / Operating profits (losses) | 11.88% | -17.80% | -18.81% |

(B) Specific measures in response to changes in exchange rates:

a. The business units would first evaluate the trends of currencies and consider the impact of changes in exchange rate before making a quote to the customer, and the business unit would take a more robust and conservative exchange rate as the basis for the quote, so that the impact of appreciation and depreciation of NTD is minimized for the orders.

b. Open a foreign currency account at the banks to keep the foreign currency for the needs of foreign currency. Exchange the remittance of sales into NTD in accordance with actual exchange rate and deposit it in NTD account or foreign currency account. Foreign currencies that are earned from the exports are preferred to be used when paying for the import to reduce the impact of changes in foreign exchange.

c. Collect information with regards to changes in foreign exchange at any time and fully grasp the domestic and international exchange rate movements to adjust the ratio of foreign currency assets and liabilities, so that the exchange rate fluctuations have a natural hedge effect.

(C) Impact from inflation

The inflation for the most recent year has no impact on the profits and losses on the Company. The Company will keep a close watch at the fluctuation of the market prices, maintain good relationships with suppliers and the customers, and collect the information of the inflation and government pricing policy.

(II) Policies on high risk, highly leveraged investments, loans to other parties, endorsements/guarantees, and derivatives transactions, main reasons for the profits or losses generated thereby, and future response measures to be undertaken.

(1) The Company is not engaged in high risk or highly leveraged investments for the most recent year.

(2) As of March 31, 2019, the Company has loaned EUR 1,504,500 to United Orthopedic Corporation (Suisse) SA, a re-invested sub-subsidiary, in accordance with the "Procedures of Loaning of Funds." Meanwhile, United Orthopedic Corporation (Suisse) SA, a re-invested company registered under a subsidiary, has extended a loan of CHF 14,053.60 to United Orthopedic Corporation (France), also a re-invested company registered under a subsidiary.

(3) As of March 31, 2019, the Company has taken out a loan from the bank that is worth USD 6.5 million with joint liability for UOC USA, Inc., a re-invested sub-subsidiary, in accordance with the "Procedures for endorsements/guarantees."

(4) The Company engaged in derivatives transactions. As of March 31, 2019, the Company has an unsettled amount of EUR 1.5 million for forward exchange trading.

(III) Future R&D projects and estimated R&D expenditures:

Unit: NTD

| Plan title | Progress | Required additional R&D expenses | Time expected to complete mass-production | Main reasons that would affect the success of R&D |
|---|---|---|---|---|
| Additional specifications for the U-Motion II Acetabular System | Mass production under development | 1,300,000 | June 30, 2019 | Metal acetabular cup strength design |
| Embedded femur file | Mass production under development | 1,000,000 | June 30, 2019 | Surgical instrument design |
| Tumor rebuild artificial joints and tools II | Mass production under development | 2,700,000 | September 30, 2019 | Mirror-surface polishing for tibial baseplates in response to increasingly rigorous regulatory requirements |
| Short-stalk handle and tool | Regulatory certification underway Mass production under development | 700,000 | September 30, 2019 | Design of femur file handle for DAA surgeries |

| | | | | |
|---|---|---|---|---|
| Conformity stems and tools | Regulatory certification underway Mass production under development | 17,000,000 | September 30, 2019 | 15nm HA coating for preformed bone handle casting on stepped surfaces |
| Non-cement fixed femoral end implants | In design | 11,600,000 | September 30, 2019 | Small-sized cobalt molybdenum-coated sintering process development and asymmetrical surface sintering process development |
| Double movement acetabular system and tool | In design | 7,600,000 | December 30, 2019 | Integrated inner lining and ball-shaped design for inner mirror surface polishing |
| Rotating modular tibial baseplate | Regulatory certification underway Mass production under development | 800,000 | December 30, 2019 | Mirror-surface polishing for tibial baseplates |
| Modular acetabular cage system and tools | Regulatory certification underway Mass production under development | 700,000 | December 31, 2019 | None |
| Restrictive rear stabilization tibial baseplate cushions | Preliminary research | 4,200,000 | June 30, 2020 | Wear test |
| Modularized knee test items | Sample production | 6,500,000 | September 30, 2020 | Design of modular combination mechanisms for metal and plastic injection molding |
| 3D printed acetabular system and tool | Preliminary research | 5,100,000 | December 31, 2020 | Microporous structural design |
| Modeled stalk handle and tool | In design | 6,800,000 | March 31, 2021 | Combination mechanisms and corresponding corrosion phenomenon |
| Shoulder joint system and tools | Preliminary research | 5,300,000 | September 30, 2021 | Design of combination mechanisms<br>Oval mirror surface process development |

(IV) The Impacts of changes of the important domestic and foreign policies and laws on the Company's finance and business, and the countermeasures: None

(V) Impact of recent technological and market changes on the Company's finance and business, and response measures: None.

(VI) Impact of corporate image change on risk management and response measures:

Ever since the Company has been listed on September 2004, the Company has always upheld the professional and integrity of the operating principles, paid attention to corporate image and risk control, and made positive contributions to the company's visibility and improvements of image, sound management of the Company, and sustainability of the Company. The Company will continue to operate in maximum efficiency to retrieve the best interest and share the results with all shareholders and employees. Thus, there are no major events that would have an impact on the Company's corporate image.

(VII) The expected benefits and possible risks to engage in mergers and acquisitions (M&A) and the countermeasures: Not applicable.

(VIII) Expected benefits and possible risks of factory expansions as well as the response measures:

The first phase of Kaohsiung plant was completed and inaugurated on February 14, 2011. Its main features include a precision forging and porous titanium beads sintering production line. The initial configuration allows it to produce 60,000 pieces of titanium alloy and cobalt chromium molybdenum alloy each year. The production can be expanded to 240,000 pieces by expanding the production line and production shifts in accordance future demand. The expected production of titanium alloy surface porous titanium beads sintering is 15,000 pieces. These are sufficient to meet the growth needs of own brand products. The forging production line has been producing products of the company since July 2011 and the transfer of mass production of all products in the plant has been completed by the end of 2011. In response to the needs for market expansion, the Company has planned to add a new forging production line in Q4, 2015. Production began since Q2, 2016 and the forging capacity has been increased to 100,000 pieces per year. The biocompatibility test for the high-vacuum sintering furnace production line for titanium alloy porous surface titanium beads sintering was completed in Q1, 2014 and we conducted the mass production testing for application products. Mass production began in Q1, 2015.

The construction of phase 2 of Kaohsiung plant began in February 2012 and expansion was completed in November, 2012. Main additions to phase 2 plant: (1) Production line of precision casting. Process verification and development of initial replacement knee joint and hip joint castings has been completed in 2013, and mass production and mass production approval had been gradually completed. By Q3, 2014, it has completed replaced all outsourcing productions and turn it into an in-plant production. It has reduced the production lifecycle effectively. The Company will continue to improve the production and improve production efficiency and reduce casting costs. It will also cooperate with the design of the second generation of tumor reconstruction of artificial joints and U2 knee femoral component of the middle size of the product and develop in the castings required for production. The initial configuration for the production of Co-Cr-Molybdenum Alloy for artificial joints castings is 60,000 pieces, and the production capacity can be expanded into 150,000 pieces for future demands. -2 The plasma spraying production line can be used to spray titanium powder on the surface coating of titanium alloy artificial joints to create a porous surface. It can also spray HA coating in composite sprays. The titanium spraying process was developed and verified in Q4, 2015. We completed the development and verification of HA coating in Q2, 2016 and began mass production and stability production tests. We gradually began production in Q4, 2016. In response to requirements for production capacity, we expanded the system in Q4, 2018 and integrated the Ti coating and HA coating spray process which were previously separate. The annual production capacity is now 30,000 pieces.

After the completion of phase 2 facilities in Kaohsiung plant, we succeeded in combining the precision casting of Cr-Cr-Mo alloy and spraying of titanium alloy surface production lines and established processing capacity for the mold and measuring tools that are essential for forging and casting. The Company has achieved control over key production tools from design to production and has effectively reduced supply lead time. We continued to expand based on increased demand for production capacity and molds. We added one set of digital-control electrical discharge machining equipment for mold discharge machining and implant threaded discharge machining. We added two CNC milling machines in 2018 in response to business growth and new products development.

The forgings, castings and surface treatments that are needed by the Company used to be outsourced to professional plants in Europe and U.S. After mass production is in place at Kaohsiung plant, the cost of outsourcing is expected to decrease by 20%-30%, and the production delivery period is able to shorten from 8-12 weeks to 6-8 weeks, the special surface treatment is shortened to 2-3 weeks, which is a substantial increase in the flexibility of business orders and market competitiveness.

Hsinchu plant production capacity has become insufficient as business grew. Even though new production lines have been set up in the remaining areas of the phase 2 plant, it was estimated that it would only meet the new needs of 2016. As a result, the planning of the construction of the Phase 3 of Kaohsiung Plant commenced in February, 2015. The construction has commenced in February 2016 and was completed in May 2017. In addition to the plant, investments in relevant equipment will be made on the basis of needs of production in 2019. The production technology in Hsinchu will also be transferred. It began operations in Q4, 2017 to solve the problem of insufficient capacity of Hsinchu Plant. We shall expand production line equipment pursuant to business needs. The estimated maximum capacity for annual output of knee and hip joint totals about 150,000 pieces, and we shall gradually complete one-stop production strategy objectives in Kaohsiung plant.

(IX) The risks faced with concentrated procurement and sales, and the countermeasures:

The Company's purchase and sales are not relatively focused on specific manufacturers or customers.

(X) The impacts and risks arising from major exchange or transfer of shares by Directors, Supervisors or shareholders with over 10% of stake in the Company and the countermeasures:

The Directors, Supervisors or shareholders of more than 10% of the Company's shares do not have any substantial transfers or changes in the shares of the Company for the most recent year and as of the publication date of the Annual Report. Thus, it did not have any significant impact on the Company.

(XI) Impact, risk, and response measures related to any change in the administrative authority towards the Company's operations:

In January 2016, the Company invested and jointly founded Shinva United Orthopedic Corporation with Shinva Medical Instrument Co., Ltd and New China Life Health Co., Ltd. In accordance with the cooperation agreement, on January 1, 2016, the Company sold shares of United Medical Instrument Co., Ltd, Medical Instrument Ltd., and United Medical Technology (Shanghai) Co., Ltd. to Shinva United Orthopedic Corporation.

The Company holds 49% shares of Shinva United Orthopedic Corporation. Thus, starting from 2016, recognition method of re-investment subsidiaries at China have changed from consolidated statement to equity method, and the recognition of profits and losses are recognized by equity method.

Shinva United Orthopedic Corporation will not only carry on the <import> of artificial joints of the Company, but also actively manufacture Chinese <domestic brands> artificial joints. The company will target the import and domestic brand market and utilize the advantages of both sides. The company will take advantage of the benefits of the China's

13th Five-Year Plan to rapidly expand in the domestic product and sales channels at China and to further expand the market share.

Under the conditions of friendly and mutual trust cooperation, all the significant resolutions of the Company will be based the resolution of the Board of Directors. The Company holds over 1/3 of the seats in the Board of Shinva United Orthopedic Corporation. There are still decisions and voting rights in the important resolutions of the future, and there is no significant impact on the Company as a whole.

(XII) Litigation and non-litigation events:

(1) Confirmed judgment, ongoing litigation, and non-litigation or administrative contention items involving the Company for the most recent two years and as of the publication date of the annual report, which might have a significant impact on the shareholders' equities or price of securities: None.

(2) Confirmed judgment, ongoing litigation, and non-litigation or administrative contention items involving Directors, Supervisors, General Manager, responsible person, and stockholders that hold more than 10% of this company's stock in the last two years and up to the printing of this Annual Report that can have a significant impact on shareholders' equity or securities prices: None.

(XIII) Other material risks and response measures: None.

## VII. Other important matters: None.

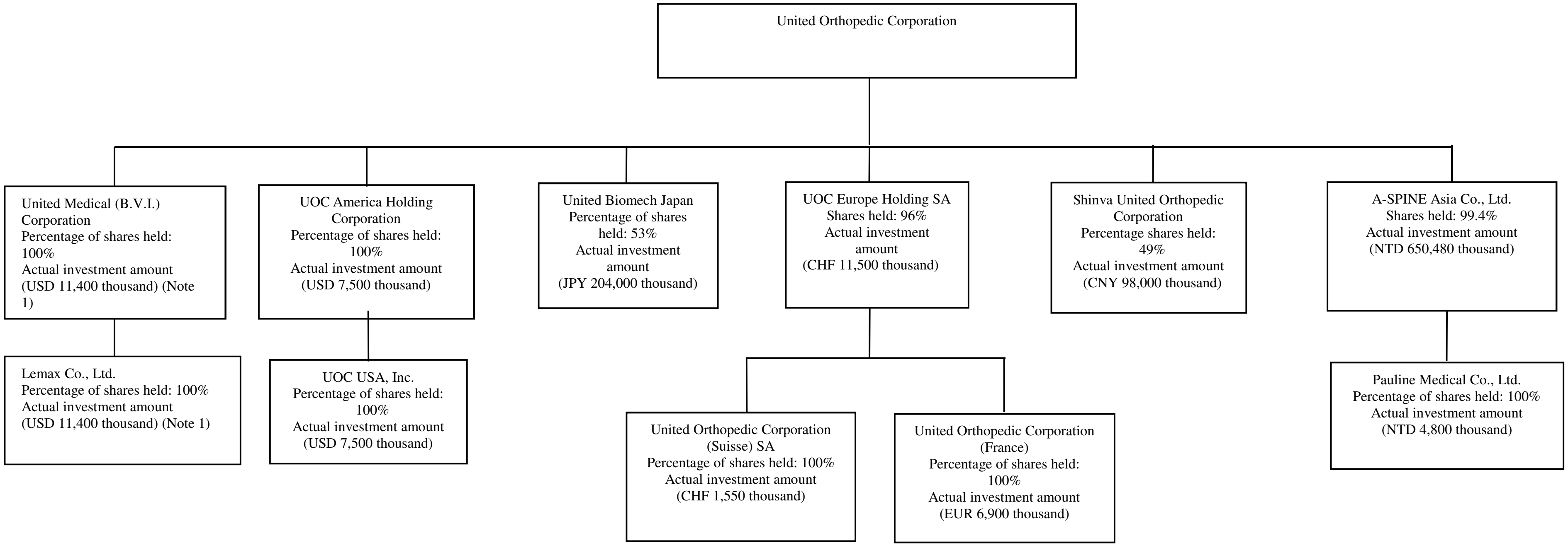
# Chapter 8 Special Items

## I. Relevant information on affiliated companies

### (I) Consolidated Operation Report of Affiliated Companies

1. Organization structure of affiliated companies

December 31, 2018




Note 1: The liquidation was completed on September 30, 2018.

2. Basic information of various affiliated companies

Unit: NT$1,000

| Name of company | Date of incorporation | Address | Actual paid-in capital | Main business items |
|---|---|---|---|---|
| United Medical (B.V.I.) Co. | September 7, 2004 | Note 4(1) | USD 11,400 | Investment and trading business |
| Lemax Co., Ltd. | February 3, 2004 | Note 4 (2) | USD 11,400 | Holding company |
| UOC America Holding Corporation | May 10, 2012 | Note 4(3) | USD 7,500 | Investment and trading business |
| UOC USA, Inc. | July 19, 2012 | Note 4(4) | USD 7,500 | Sales of medical equipment |
| UOC Europe Holding SA | May 23, 2016 | Note 4(5) | CHF 11,500 | Investment and trading business |
| United Orthopedic Corporation (Suisse) SA | June 29, 2016 | Note 4(6) | CHF 1,550 | Sales of medical equipment |
| United Orthopedic Corporation (France) | July 5, 2016 | Note 4(7) | EUR 6,900 | Sales of medical equipment |
| United Biomech Japan | August 5, 2016 | Note 4(8) | JPY 204,000 | Sales of medical equipment |
| Shinva United Orthopedic Corporation | January 13, 2016 | Note 4(9) | CNY 98,000 | Manufacture and sale of orthopedic equipment |
| A-SPINE Asia Co., Ltd. | June 15, 2001 | Note 4(10) | NTD 650,480 | Manufacturing and sales of medical equipment |
| Pauline Medical Co., Ltd. | April 13, 2010 | Note 4(11) | NTD 4,800 | Sales of medical equipment |

Note 1: All affiliated companies shall be disclosed regardless of size.

Note 2: For all affiliated companies that have plants, and the production value of products of the plants worth more than 10% of the operating income of the holding company, the name of the plants, founding dates, addresses, the main productions of the plants shall also be listed.

Note 3: If the affiliated company is a foreign company, the title of the company and the address may be shown in English, and the founding date may also be expressed in Gregorian calendar. The paid-up capital may be expressed in foreign exchange (However, the exchange rate as of the publish date shall be listed).

Note 4:

(1) Trust Net Chambers, P.O. Box 3444 Road Town, Tortola, British Virgin Islands (liquidation completed on September 30, 2018)

(2) Portcullis TrustNet Chambers, P.O.Box 3444 Road Town, Tortola, British Virgin Islands (liquidation completed on September 30, 2018)

(3) Portcullis TrustNet Chambers, P.O.Box 3444, Road Town, Tortola, British Virgin Islands

(4) 20 Fairbanks, Suite 173, Irvine CA 92618

(5) Avenue Général Guisan 60A, 1009 Pully, Switzerland

(6) Avenue Général Guisan 60A, 1009 Pully, Switzerland

(7) 21 Rue de la Ravinelle, 54000 Nancy, France

(8) 2−9−40 Kitasaiwai, Nishi-ku, Kanagawa, Yokohama

(9) No. 1999, Luxin Road, Gaoxin District, Zibo City, Shandong Province, China

(10) 20F., No. 80, Chenggong Road, Yonghe District, New Taipei City

(11) 20F., No. 80, Chenggong Road, Yonghe District, New Taipei City

3. Companies presumed as having control and subordinate relationships in accordance with Article 369-3 of the Company Act:

According to the above organization chart, the Company's affiliated companies are all subsidiaries of the Company.

4. Industries that are covered by affiliated companies and their distribution of work if the businesses of affiliate companies are interconnected with others:

(1) Industries that the overall affiliated companies are involved with: Mainly for orthopedic artificial implants, surgical equipment manufacturing and sales.

(2) Distribution of work if the businesses of affiliated companies are interconnected with others:

The Company also invested in UOC America Holding Corporation, and indirectly invested in UOC USA, Inc. in 2012. We use UOC USA, Inc. as the marketing operation in the America. The marketing model adopted are dealer and direct selling to quickly establish a complete marketing system to increase market share. The Company also invested in Shinva United Orthopedic Corporation in 2016 for production and sales of artificial joints at China to respond to the "2025 Made in China" policy by Mainland Chinese government. It also imports the artificial joints of the Company to build a comprehensive marketing system and increase market share. The Company invested in UOC Europe Holding SA in 2016, and then indirectly invest in United Orthopedic Corporation (Suisse) SA and United Orthopedic Corporation (France). Setting the marketing operation in Switzerland and France as bases in Europe. The marketing model adopted are dealer and direct selling to preserve the high growth rate in the European market and expand the market shares in a rapid pace. The Company also invested in United Biomech Japan at the same year as the marketing operation in Japan, so that the product registration may be acquired smoothly and enter into Japanese market as soon as possible. The Company invested in A-Spine Asia Co., Ltd. in 2017 in response to the Company's strategy of business diversification. We were looking to quickly enter the spine product market through mergers and acquisitions to accelerate the development of spine products in Taiwan and international markets, as well as boosting the Company's revenue and profit.

5. Information of directors, supervisors and general managers in all affiliated companies:

| Name of company | Title (note 1) | Name or representative | shares held | |
|---|---|---|---|---|
| | | | Number of Shares | holding ratio |
| United Medical (B.V.I.) Co. | Director | Lin, Yan-Shen | 11,400 | 100% |
| Lemax Co., Ltd | Director | Lin, Yan-Shen | 11,400 | 100% |
| UOC America Holding Corporation | Director | Lin, Yan-Shen | 7,500 | 100% |
| UOC USA, Inc. | Chairman | Lin, Yan-Shen | 1,500 | 100% |
| UOC Europe Holding SA | Chairman | Lin, Yan-Shen | 11,500 | 96% |
| United Orthopedic Corporation (Suisse) SA | General Manager | Bopp François | 1,550 | 100% |
| United Orthopedic Corporation (France) | General Manager | Bopp François | 6,900 | 100% |
| United Biomech Japan | Chairman | Kazuya Oribe | 2,040 | 53% |
| Shinva United Orthopedic Corporation | Chairman | Cui Hongtao | 98,000,000 | 49% |
| A-SPINE Asia Co., Ltd. | Chairman | Lin, Yan-Shen | 12,172,400 | 100% |
| Boiling Medical Co., Ltd. | Chairman | Hsu, Sheng-Fa | 480,000 | 100% |

Note 1: If the affiliated company is a foreign company, list those whose job position is equivalent.

Note 2: If the invested company is a joint-stock company, please list the amount of stocks and shareholding ratio. For others, please list the capital contribution and contribution ratio and make a note on that.

6. Operating status of affiliated companies:

Unit: NT$1,000

| Name of company | Capital | Total assets | Total liabilities | Net value | Operating revenue | Operating profit | Current profit and loss (after tax) | Earnings per share (after tax/dollar) |
|---|---|---|---|---|---|---|---|---|
| United Medical (B.V.I.) Co. (Note 2) | 0 | 0 | 0 | 0 | 0 | 0 | (488) | — |
| Lemax Co., Ltd (Note 2) | 0 | 0 | 0 | 0 | 0 | 0 | (1,001) | — |
| UOC America Holding Corporation | 232,933 | 166,617 | 46,357 | 120,260 | 104,869 | (435) | (86,263) | — |
| UOC USA, Inc. | 232,933 | 387,740 | 298,520 | 89,220 | 259,745 | (81,204) | (88,535) | — |
| UOC Europe Holding SA | 375,058 | 327,835 | 2,333 | 325,502 | 0 | (6,439) | (16,731) | — |
| United Orthopedic Corporation (Suisse) SA | 49,987 | 393,702 | 335,071 | 58,631 | 211,821 | 1,254 | 8,823 | — |
| United Orthopedic Corporation (France) | 245,891 | 345,905 | 151,669 | 194,236 | 218,522 | (32,644) | (19,106) | — |
| United Biomech Japan | 55,014 | 80,742 | 67,135 | 13,607 | 10,199 | (43,914) | (44,357) | — |
| Shinva United Orthopedic Corporation | 994,002 | 893,293 | 25,544 | 867,749 | 602 | (40,768) | (11,798) | — |
| A-SPINE Asia Co., Ltd. | 122,464 | 473,959 | 195,099 | 278,860 | 304,817 | 62,164 | 50,105 | 4.41 |
| Pauline Medical Co., Ltd. | 4,800 | 44,746 | 33,518 | 11,228 | 122,527 | 335 | 235 | — |

Note 1: All affiliated companies shall be disclosed regardless of size.

Note 2: The liquidation was completed on September 30, 2018.

Note 3: If the affiliated company is a foreign company, all relevant numbers shall be expressed in NTD by using the exchange rate as of the publication date.

Note 4: The exchange rates for the balance sheet are as the following: USD 1 = NTD 30.715; CNY 1 = NTD 4.472;

EUR 1 = NTD 35.200; CHF 1 = NTD 31.185;

EUR 1 = CHF 1.1287; CHF 1 = EUR 0.8859;

JPY 1 = NTD 0.2782.

The exchange rates for the income statement are as follows: USD 1 = NTD 30.2375; CNY 1 = NTD 4.5185;

EUR 1 = NTD 35.385; CHF 1 = NTD 30.82;

EUR 1 = CHF 1.1481; CHF 1 = EUR 0.871;

JPY 1 = NTD 0.2712.

## (II) Reports of all entities: Please refer to the consolidated financial report.

**II. For private issuance of marketable securities in the most recent year and up to the publication date of the Annual Report, the Company shall disclose the approval date and amount of the shareholders' meeting or the Board of directors meeting, the basis and rationale of the pricing, the selection method of specific person and the necessary reasons for private issuance: None.**

**III. Holding or disposal of this Company's shares by a subsidiary company in the most recent year, up to the publication date of the Annual Report: None.**

**IV. Other necessary supplementary information: None.**

## Chapter 9 Any event that results in substantial impact on the shareholders' equity or prices of the Company's securities as prescribed by Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act that have occurred in the most recent year up to the publication date of the Annual Report: None.

United Orthopedic Corporation

Chairman: Lin, Yan-Shen