Stock Code: 4129

United Orthopedic Corporation

2019 Annual Report

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Title: Deputy General Manager
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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
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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
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IV. Name of the CPAs Attesting the Financial Statements for the Most Recent Year:
Name of CPA: Ma, Chun-Ting and Huang, Chien-Che
Name of Accounting Firm: Ernst & Young
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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

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Chapter 1 Letter to Shareholders

Dear shareholders,
Thank you for attending the 2020 Annual General Meeting of the United Orthopedic Corporation. I would like to welcome everyone on behalf of the Company.

I. 2019 Operating Results

(I) Business Plan Implementation Results

In 2019, net operating revenue of the Company was NT$1,576,184,000, representing a decrease of NT$213,192,000 from NT$1,789,376,000 in 2018; consolidated net operating revenue was NT$2,436,700,000, a 4.5% increase from NT$2,332,247,000 in 2018; profit after tax was NT$71,786,000, representing a decrease of NT$30,706,000 from NT$102,492,000 in 2018.

(II) Budget Execution

The Company's undisclosed budget amount and overall operating conditions were roughly the same with the original operating plan for 2019 in accordance with the current laws.

(III) Consolidated Income and Expenses and Profitability Analysis

(1) Consolidated income and expenses

Unit: NT$1,000

Item	2019	2018
Current Period Net Profit	71,786	102,492
Cash Inflow from Operating Activities	519,094	18,354
Cash Outflow from Investing Activities	(522,591)	(387,998)
Cash Inflow from Financing Activities	32,257	494,784
Increase (Decrease) in Cash and Cash Equivalents	10,638	127,097
Opening Balance of Cash and Cash Equivalents	528,484	401,387
Ending Balance of Cash and Cash Equivalents	539,122	528,484

(2) Consolidated profitability analysis

In 2019, revenue of the Company was NT$2,436,700,000, an increase from NT$2,332,247,000 in 2018; profit after tax was NT$71,786,000, representing a decrease of NT$30,706,000 from NT$102,492,000 in 2018; the earnings per share was NT$1.05, a decrease from NT$1.61 in 2018. The decrease was mainly attributed to the increase in marketing and promotion fees from the previous year.

(IV) R&D Status

The Group's research and development funds in 2019 included ongoing research and development costs of NT$228,521,000, a decrease of NT$8,339,000 from 2018, and accounting for 9.4% of revenue in 2019.

II. Overview of 2020 Business Plan

(I) Operating Objectives

A. Continue to develop products required by the target market: With regard to artificial orthopedic joints, the Company already has an impressive product line in place. The overall product comprehensiveness is approximately seventy to eighty percent of that of major international companies. After the launch of the second-generation product series for oncology in 2020, we expect to achieve more than ninety percent of coverage in the comprehensiveness of the product line compared to major international companies. Niche products for specific target markets will be developed to effectively increase the Company's overall competitiveness.

B. Continue to strengthen international brand awareness: The Company has gradually established a brand awareness through continuous exposure in 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 those of major manufacturers in the West. The gap lies only in brand awareness. Our current priority is to optimize the international brand awareness in the global orthopedic artificial joints market in the coming one to two years.

C. Continue to strengthen the existing domestic and international sales channels: The output of the current global artificial joints industry is approximately US$17 billion and we only retain 0.4% to 0.5% market share. The Company will continue to optimize services and commit itself to reputation marketing tasks. In Europe, results have started to roll in with an expected high growth rate. Our product series have passed application procedures in Japan in the middle of the year and will officially become available in the market. Our sales in the U.S. are also expected to remain high growth with the launch of new products.

(II) Estimated Sales Volume and Supporting Information

Unit: Pieces

Main products	Expected Sales Target for 2020
	Quantity
Artificial Joints	304,795 pcs
Spinal Products	170,478 pcs

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

The sales targets for 2020 are set based on basic assumptions 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 production capacity.

(III) Significant Sales and Production Policies

We have completed the one-stop production line at Kaohsiung Plant. Our Kaohsiung Plant and Hsinchu Plant adjust their capacities flexibly in line with market needs, which provides a strong and powerful foundation for the Company's future revenue and growth.

III. Future Corporate Development Strategy

Having established a marketing network across nearly 40 countries for twenty odd years with its own brand of artificial joints, United Orthopedic Corporation has consistently devoted itself to providing the elderly with quality and affordable artificial joints. To compete with international manufacturers, we must continue to advance and stay ahead by investing in our own brand and distributors. As it will take some time to see the results roll in, investing is the only way to make us an international brand. With the COVID-19 pandemic raging across the globe, the healthcare industry is the first to be affected. The pandemic will certainly have an impact on our business operations. After experiencing market disturbances many times, the Company has already mitigated the market risk to a manageable level. We believe that the operation will resume to normal when the pandemic subsides.

IV. Impact of the Competitive Environment, Regulatory Environment, and Overall Business Environment

When the Company was established, large international manufacturers had existed for many years and occupied most of the market. 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 year after year with its own brand taking roots in the global artificial joints market. We have proved our capabilities and capacity as David had in countering Goliath.

Apart from the FDA of the United States, CE Mark of the European Union, CFDA of China, and TFDA of Taiwan have tightened the controls in recent years, which increases the time required to obtain certifications and the cost of testing. With over 20 years of regulatory application experience, we are confident that we will meet all the requirements.

Although there has been constant demand in the healthcare industry to which artificial joints belong, the industry is affected by international economics, politics, currencies, and regulations, as well as some adverse effects on occasion. In the face of these uncontrollable external factors, the Company spreads risks in the day-to-day business operations to avert the impact of a single market or incident.

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. •"United" Uniqhip Total Hip System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000587. •First clinical used Uniqhip Total Hip System.
1995	•"The research and development of 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. •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. •"United Pin" has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000659. •"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. •"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. •"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. •Capital increased by NT$70,000,000 to NT$186,125,000. •Permitted to conduct make up public offering. •"Tumor UKNEE Total Knee System" has been awarded innovative product award of Science-Based Industrial Park in 1998. •UKNEE Total Knee System has been awarded Ministry of Economic Affairs Taiwan Excellence Certification. •"United" Moore Hip Prosthesis has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000716. •"United" Hip System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000717.
1999	•Capital increased by NT$40,000,000 to NT$226,125,000. •United UKNEE Total Knee System has been awarded "Small and Medium Sized Enterprises Innovative Research Award" by Ministry of Economic Affairs. •Passed international quality assurance certification ISO 9001/EN46001. •GMP well-manufactured medical equipment specification certification. •"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. •United UKNEE Total Knee System has been awarded "National Quality Gold Award." •"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. •"United" U2 Hip Stem has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000884. •"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. •"United" UNIFY Femur Plate System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 000897. •"United" U2 Hip Stem (HA/Porous) has been certified by CE of European Union. •"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. •"UNITED" No. 2 Uniqhip Total Hip System has been awarded Ministry of Economic Affairs Taiwan Excellence Certification. •"United" 22mm/28mm ceramic femoral head.22mm28mm has been certified by CE of European Union.22mm28mm •"United" U2 acetabular cap and fillings have been certified by CE of European Union. •"U2 Total Hip System" has been awarded innovative product award of Science-Based Industrial Park in 2002.
2003	•Passed international quality assurance certification ISO 13485:1996 edition. •"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. •"United" Unify Femur Plate System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 001064. •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. •"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. •Capital increased by NT$28,500,000 to NT$254,625,000. •The Company was listed on September 29. •Founded United Medical (B.V.I.) Corporation.
2005	•Invested indirectly in Medical Instrument Ltd. in China. •Invested indirectly in Lianmao Medical Treatment Utensils Technology (Shanghai) Co., Ltd. in China. •"United" U2 Total Knee System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 001396. •"United" Ceramic Femoral Head has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 001397. •"United" U2 CUP (HA Coating) & CUP LINER have been awarded "Small and Medium Sized Enterprises Innovative Research Award" by Ministry of Economic Affairs. •Capital increased by NT$28,500,000 to 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. •Capital increased by NT$85,000,000 to 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. •"United" Century Spinal System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002254. •<u>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.</u> •<u>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.</u> •Capital increased by NT$46,000,000 to NT$385,625,000.

	•"U2 Total Knee System" has been awarded "National Biotechnology Medical Quality Award." •Established United Orthopedic (U.S.A.) Corporation. •Established 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. •"UNITED" Round Mesh System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002498. •"United" Express Lumbar Cage System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002512. •"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. •"United" Express Peek Cage System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002559. •Expansion Mechanism for Minimally Invasive Lumbar Operation (invention) has been awarded utility patent by Republic of China. License No.: Utility I298248. •Capital increased by NT$38,000,000 to 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. •"United" Unify Femur Plate System has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002676. •"United" Ustar System - shoulder joint has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 002706. •Capital increased by NT$40,000,000 to NT$463,625,000. •Awarded Industrial Technology Advancement Award - Excellent Enterprise Innovation Award from the Ministry of Economic Affairs. •Closed the United Orthopedic Corporation USA.
2000	•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. •Thighbone Shaft has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 7753961 B2. •Expansion Mechanism for Minimally Invasive Lumbar Operation has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 7811230 B2.
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. •"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. •Established Kaohsiung Plant in Luzhu Science Park. •Support Mechanism for Operation Auxiliary Tools has 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. •"United" Ustar System - Hip Joint has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 003713. •Founded the UOC USA Inc. •Artificial Joint Fixation Mechanism has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 8172906 B2. •Awarded Hsinchu Science Park "Innovative Product Award" and "International Exchange and Corporation Promotion Award." •U2 Total Knee System has been awarded "Symbol of national Quality" award by Institute for Biotechnology and Medicine Industry.

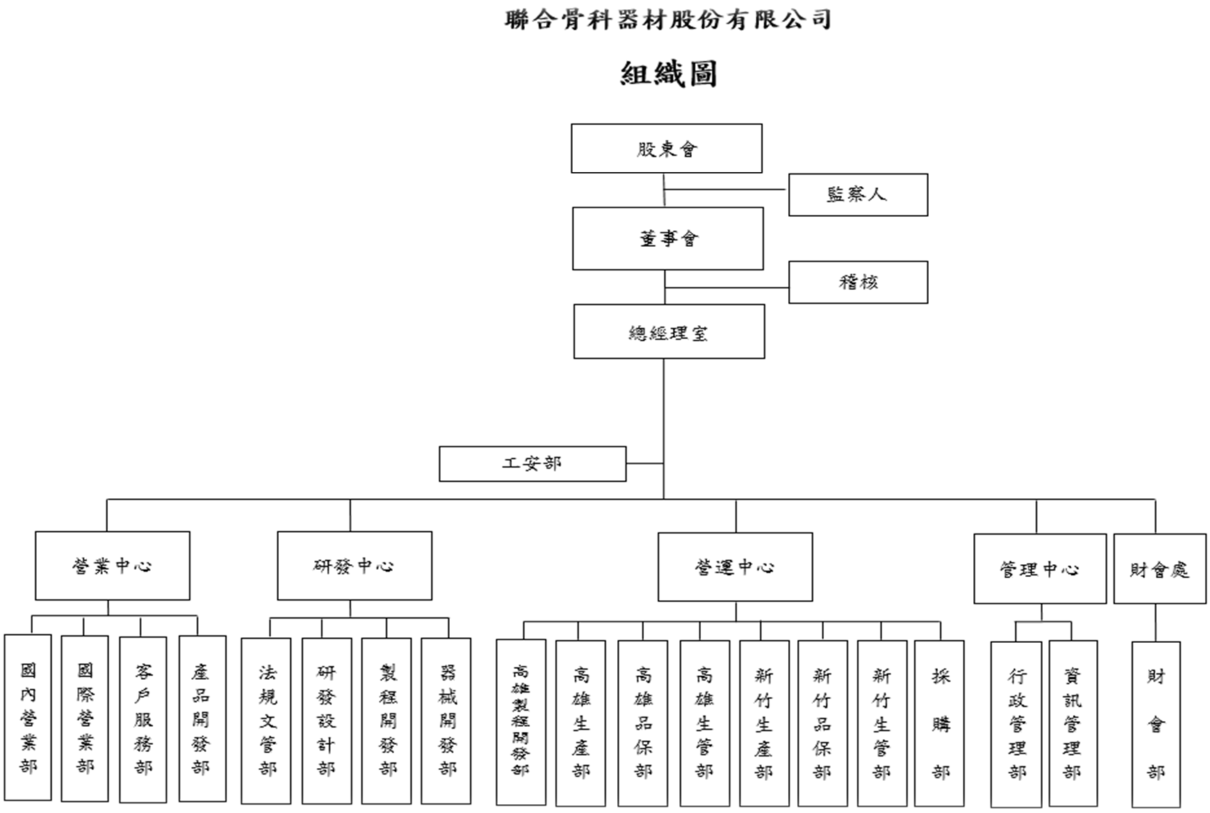
	•U2 Total Knee System has been awarded "Institute for Biotechnology and Medicine Industry Silver Award."
2013	•"United" Century Spinal System II has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 003969. •"United" U-MOTION Acetabular Component II has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 003977. •"United" Hip System II has received marketing authorization from the Department of Health. License No.: Department of Health Medical Machine Production No. 004220. •"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. •Capital increased by NT$70,000,000 to NT$533,625,000. •Issued convertible bonds worth NT$200 million. •U-MOTION Acetabular Component II has been awarded has been awarded "Taiwan Excellence Certification." •U-MOTION Acetabular Component II 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. •"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. •"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. •"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. •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. •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. •Stacked tibial insert has been awarded utility patent by Republic of China. License No.: Utility M479734. •Connecting Device of Joint Prosthesis has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 8721729 B1 •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. •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. •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. •Acetabular Cup Inserter has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 8926621 B2. •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. •Stacked Tibial Insert has been awarded patent rights by United States Patent and Trademark Office. Patent No. US 9144495 B2.

	•Acetabular Cup Inserter has been awarded patent certification that is issued by Republic of China. License No.: Invention I508698. •Capital increased by NT$128,000,000 to NT$712,128,680. •Signed cooperation agreements with Shinva Medical Instrument Co., Ltd. and New China Life Health Co., Ltd. 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. •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. •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. •Founded United Orthopedic Corporation (Suisse) SA and United Orthopedic Corporation (France) SAS in Switzerland and France respectively. •Founded United Biomech Japan Inc. •Awarded "Golden Quality Medal" of 2016 Outstanding biotechnology industry. •The multifunctional femur measurement and osteotomy tool of U2 UKNEE Total Knee System has been awarded the 13th National Innovation Award.
2017	•Purchased all shares of A-Spine Asia Co., Ltd. •Awarded 2017 Taipei Biotech Awards - Go-Global Gold Medal Award. •Capital increased by NT$80,000,000 to NT$797,248,470. •Issued NT$400 million of unsecured convertible bonds.
2018	The bipolar hip system passed the certification application for Japan.
2019	•U2 Knee (AIOMDT) has been awarded a Bronze medal in the 21st Annual Medical Design Excellence Awards (MDEA). •Capital increased by NT$100,000,000 to NT$904,208,470 through issuance of preferred shares A. •Issued NT$500 million of unsecured convertible bonds.

Chapter 3 Corporate Governance Report

I. Organization

(I) Organizational Structure



United Orthopedic Corporation Organizational Chart																		
							Shareholders' Meeting			Supervisors								
							Board of Directors			Auditing Office								
				Department of Construction Safety			General Manager's Office											
Operations Center				Research and Development Center				Operations Center								Control Center		Department of Finance and Accounting
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	Department of Production at Kaohsiung	Department of Quality Assurance at	Department of Production at Kaohsiung	Department of Production at Hsinchu	Department of Quality Assurance at Hsinchu	Department of Production Control at	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. Planning, development and maintenance management of the information system.
Department	Main Functions
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. 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. Responsible 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. Establishing the product production process management, process quality inspection, mechanical maintenance, and operating standards. The development, manufacture, and maintenance of surgical instruments. Responsible for product compliance confirmation, product marketing authorization, patent and trademark application. Coding, registration, and issuance of documents and control and preserve the documents. Test and verify plan of product development.

Department	Main Functions
Operations Center	Execution, management, and control of production plans. 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. 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. The quality assurance and formulation of inspection standards regarding raw materials purchased, first sample, and final manufacturing; customer complaints processing; SPC application planning; measurement and calibration of equipment management; ISO quality management system implementation and maintenance. Businesses such as purchasing international and domestic raw materials for plants and exporting of OEM products. 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, General Manager, Deputy General Managers, Assistant General Managers, and Heads of Departments and Branches

(I) Directors and Supervisors

(1) Information on directors and supervisors

April 18, 2020

Title	Nationality or Place of Registration	Name	Gender	Date Elected	Term	Date First Elected	Shares Held upon Election: Number of Common Stocks	Shares Held upon Election: Percentage	Shares Currently Held: Number of Common Stocks Number of Preferred Stocks	Shares Currently Held: Percentage	Shares Currently Held by Spouse and/or Minor Children: Number of Common Stocks Number of Preferred Stocks	Shares Currently Held by Spouse and/or Minor Children: Percentage	Shares Held in the Name of Other Persons: Number of Common Stocks Number of Preferred Stocks	Shares Held in the Name of Other Persons: Percentage	Significant Experience and Education	Positions Concurrently Held at Other Companies	Any Executive Officer, Director, or Supervisor who Is a Spouse or Relative within the Second Degree of Kinship: Title	Any Executive Officer, Director, or Supervisor who Is a Spouse or Relative within the Second Degree of Kinship: Name	Any Executive Officer, Director, or Supervisor who Is a Spouse or Relative within the Second Degree of Kinship: Relationship	Remark
Chairman and General Manager	R.O.C.	Lin, Yan-Shen	Male	2017.06.20	3 years	1993.03.05	2,150,000	3.00%	2,512,000 111,000	3.12% 1.11%	510,000 0	0.63% 0.00%	0 0	0.00% 0.00%	Public Relations, Shih Hsin University Manager of 3M Company, USA3M Chairman, Chuan-Yi Investment Inc. Director, Chuan-Yi Investment Inc.	Supervisor, Taiwan Home Care Co., Ltd. Person in Charge, UOC America Holding Corporation Person in Charge, UOC USA Inc. Director, Shinva United Orthopedic Corporation Chairman, A-Spine Asia Co., Ltd. Director, United Orthopedic Japan Inc. Person in charge of UOC Europe Holding SA	Director	Lin, Chun-Sheng	Brother	Note 1
Director	R.O.C.	Lin, Chun-Sheng	Male	2017.06.20	3 years	2008.06.13	1,758,629	2.45%	1,905,743 90,000	2.37% 0.90%	15,000 0	0.02% 0.00%	0 0	0.00% 0.00%	Bachelor in Industrial Management, Tamsui Institute of Business Administration Director, Chuan-Yi Investment Inc. Vice Chairman, United Orthopedic Corporation Vice Chairman, UMP Medical Device Co., Ltd.	Director, United Orthopedic Japan Inc. Director, A-Spine Asia Co., Ltd.	Chairman	Lin, Yan-Shen	Brother	-
Director	R.O.C.	Hau, Hai-Yen	Male	2017.06.20	3 years	1997.05.15	661,714	0.92%	698,646 65,000	0.87% 0.65%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Doctor of Philosophy in Electrical Engineering, Purdue University Associate Professor of Electrical Engineering, National Taiwan University Deputy General Manager, Financial Business Group of the Institute for Information Industry Chairman, Integrate Information System Co. Ltd.	Director, Sincere Medical Imaging Co. Ltd. Independent Director, Walton Advanced Engineering, Inc.	None	None	None	-
Director	U.K.	Ng Chor Wah Patrick	Male	2017.06.20	3 years	2005.06.16	1,180,076	1.64%	1,401,139 130,286	1.74% 1.30%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	The Hong Kong Polytechnic University Country Manager, Medtronic Sofamor Danek China Executive Director, Schwartz Group Vice President, Stryker Pacific Ltd. Director, Onlycare Medical Company Ltd.	Person in Charge, United Medical Instrument Co., Ltd. Person in Charge, United Medical Technology (ShangHai) Co., Ltd. Director, Onlycare Medical Company Ltd. Director, Shinva United Orthopedic Corporation Director, Super Joint Engineering Limited	None	None	None	-
Director	R.O.C.	Chi-Yi Investment Co. Ltd.	-	2017.06.20	3 years	2007.06.13	1,029,312	1.43%	665,417 62,051	0.83% 0.62%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	None	None	None	None	None	-
Representative of the Corporate Director	R.O.C.	Lee, Chi-Fung	Female	2017.06.20	3 years	2007.06.13	0	0.00%	450,000 0	0.56% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Bachelor in Library and Information Science, National Taiwan University Project Manager, China Management Consultant Inc.	Chi-Yi Investment Co. Ltd.	None	None	None	-
Independent Director	R.O.C.	Wang, Yueh-Cheng	Male	2017.06.20	3 years	2008.06.13	0	0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	MBA, National Chengchi University Full-Time, Part-Time Instructor for Business Management, Soochow University General Manager, Primasia Securities Co., Ltd. Director and Deputy General Manager, Vigor International Inc.	None	None	None	None	-
Independent Director	R.O.C.	Lee, Chun-Hsien	Male	2017.06.20	3 years	2004.06.17	0	0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	MBA, The City University of New York Officer, Credit Department of Bank of Taiwan Director of Department of Investment Management and Accounting Tax, Macronix International Co., Ltd General Manager and Director, Biomorphic Microsystems Corporation	Senior Director of Department of Business Development Finance, Taiwan Semiconductor Manufacturing Company Limited	None	None	None	-
Supervisor	R.O.C.	Wong, Chi-Yin	Male	2017.06.20	3 years	2014.06.23	758,993	1.06%	804,993 0	1.00% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Bachelor in Medicine, National Defense Medical Center Director of Orthopedics Department, Kaohsiung Veterans General Hospital Attending Physician, Taipei Veterans General Hospital	Attending Physician of Orthopedics Department, Yuan's General Hospital	None	None	None	-
Supervisor	R.O.C.	Wang, Ching-Hsiang	Male	2014.06.20	3 years	2004.06.17	0	0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	**Master in Accounting, Soochow University** **Partner, Solomon & Co., CPAs** **Convenor of Finance and Taxation Commission, Kaohsiung City Association of Small & Medium Enterprises** Instructor, Shih Chien University and Part-time Instructor of Department of Accounting, Tunghai University	**Person in Charge and Partner, Yangtze CPAs & CO.** Independent Director, Full Wang International Development Co., Ltd. Independent Director, Strong H Machinery Technology Cayman Inc.	None	None	None	-
Supervisor	R.O.C.	Chen, Li-Ju	Female	2017.06.20	3 years	2009.06.19	0	0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	0 0	0.00% 0.00%	Bachelor in Accounting, National Chengchi University GMBA, National Chengchi University Chairman, Ping Nan CATV Co., Ltd. Supervisor, Eastern Broadcasting Co., Ltd. Project Finance Consultant, Carlyle Asia Investment Advisors Limited General Manager of Administrative Finance, Melchers Trading GMBH (Taiwan Branch)	Person in Charge, Li-Ru Chen Accounting Firm	None	None	None	-

Note 1: The Chairman and General Manager of the Company are the same person, for he has more than 30 years of experience in international brand marketing in the field of orthopedic equipment. In domestic related industries, there is no homogeneous company having experience in international brand marketing, showing that the Company has its uniqueness in industrial management; in addition, the Company has elected two Independent Directors and two Supervisors to oversee the implementation of corporate governance before related laws and regulations are in place. At present, only two of our seven Directors concurrently serve as managerial officers within the Group, which is deemed reasonable and necessary.

(2) Major shareholders of institutional shareholders

1) Major shareholders of institutional shareholders

April 18, 2020

Name of Institutional Shareholder	Major Shareholders of Institutional Shareholder
Chi-Yi Investment Co. Ltd.	Lee, Chi-Fung (40%); Chia, Chen-I (60%)

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

(3) Professional knowledge, independence, 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 a Public or Private College Institution 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 Staff who Has Been Certified by National Examinations and Licensed by the Competent Authority	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	11	12	
Lin, Yan-Shen			✓					✓	✓	✓		✓	✓	✓	✓	None
Lin, Chun-Sheng			✓					✓	✓	✓		✓	✓	✓	✓	None
Hau, Hai-Yen			✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	1
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	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Chen, Li-Ju		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None

Note 1: The number of rows are adjusted based on the number of entries.
Note 2: Please tick off “ ” under each criteria number if the Director or Supervisor meets the criteria two years prior to resuming the position or during the term of service.

(1) Not an employee of the Company or any of its affiliates.
(2) Not a Director or Supervisor of the Company or any of its affiliates. This restriction does not apply to where the person is concurrently an Independent Director of the Company and its parent company or subsidiary or any subsidiary of the same parent company as appointed in accordance with the Securities and Exchange Act or the laws of the country of the said company.
(3) Not a natural-person shareholder who holds more than 1% of issued shares or is ranked top 10 in terms of the total quantity of shares held, including the shares held in the name of the person’s spouse, minor children, or others.
(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of any of the managerial officers in the first subparagraph or the persons in the second and third subparagraphs.
(5) Not a Director, Supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the Company, of a corporate shareholder that ranks among the top five in shareholdings, or of a corporate shareholder that elects its authorized representative as a Director or Supervisor of the Company in accordance with Paragraph 1 or 2, Article 27 of the Company Act. This restriction does not apply to cases where the person is concurrently an Independent Director of the Company and its parent company or subsidiary or any subsidiary of the same parent company as appointed in accordance with the Securities and Exchange Act or the laws of the country of the said company.
(6) Not a Director, Supervisor, or employee of a company who is a Director of the Company or holds the majority of the voting shares. This restriction does not apply to cases where the person is concurrently an Independent Director of the Company and its parent company or subsidiary or any subsidiary of the same parent company as appointed in accordance with the Securities and Exchange Act or the laws of the country of the said company.
(7) Not a Director, Supervisor, or employee of a company or institution who is the chairman, general manager or a person with an equivalent position of the Company or a spouse thereof. This restriction does not apply to cases where the person is concurrently an Independent Director of the Company and its parent company or subsidiary or any subsidiary of the same parent company as appointed in accordance with the Securities and Exchange Act or the laws of the country of the said company.
(8) Not a Director, Supervisor, managerial officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the Company. This restriction does not apply to cases where the specified company or institution holds more than 20% but less than 50% of the shares of the Company and the person is concurrently an Independent Director of the Company and its parent company or subsidiary or any subsidiary of the same parent company as appointed in accordance with the Securities and Exchange Act or the laws of the country of the said company.
(9) Not a professional individual who is an owner, partner, Director, Supervisor, or managerial officer of a sole proprietorship, partnership, company, or institution that offers audit services or offers commercial, legal, financial, or accounting services for which he/she has received the total remuneration of less than NT$500,000 over the past two years to the Company or any of its affiliates, nor a spouse thereof. This restriction does not apply to any member of the remuneration committee, public tender offer review committee or merger and acquisition special committee who exercises powers pursuant to the Securities and Exchange Act or Business Mergers and Acquisitions Act.
(10) Not a spouse or a relative within the second degree of kinship to any other Director of the Company.
(11) Not under any conditions set out in Article 30 of the Company Act.
(12) Not elected as a governmental or corporate entity or its representative set out in Article 27 of the Company Act.

(II) Information on General Manager, Deputy General Managers, Assistant General Managers, and Heads of Departments and Branches

April 18, 2020

Title (Note 1)	Nationality	Name	Gender	Date Elected	Shares Held: Number of Common Stocks / Number of Preferred Stocks	Shares Held: Percentage	Shares Held by Spouse and/or Minor Children: Number of Common Stocks / Number of Preferred Stocks	Shares Held by Spouse and/or Minor Children: Percentage	Shares Held in the Name of Other Persons: Number of Common Stocks / Number of Preferred Stocks	Shares Held in the Name of Other Persons: Percentage	Significant Experience and Education (Note 2)	Positions Concurrently Held at Other Companies	Managerial Officer who Has Spousal or Second-degree Kinship within the Company: Title	Managerial Officer who Has Spousal or Second-degree Kinship within the Company: Name	Managerial Officer who Has Spousal or Second-degree Kinship within the Company: Relationship	Remark (Note 3)
General Manager	R.O.C.	Lin, Yan-Shen	Male	2008.06.30	2,512,000	3.12%	510,000	0.63%	0	0.00%	Bachelor in Public Relations, Shih Hsin University Manager of 3M Company, USA3M Chairman, Chuan-Yi Investment Inc. Director, Chuan-Yi Investment Inc.	Supervisor, Taiwan Home Care Co., Ltd. Person in Charge, UOC America Holding Corporation Person in Charge, UOC USA Inc. Vice Chairman, Shinva United Orthopedic Corporation Chairman, A-Spine Asia Co., Ltd. Director, United Orthopedic Japan Inc. Person in charge of UOC Europe Holding SA	None	None	None	Note 4
					111,000	1.11%	0	0.00%	0	0.00%						
Deputy General Manager and Director of Operations Center	R.O.C.	Liau, Jiann-Jong	Male	2016.07.01	101,293	0.13%	0	0.00%	0	0.00%	Master in Engineering, School of Technology and Engineering of National Yang Ming University Project Manager, United Orthopedic Corporation Assistant Professor, National Taiwan University	Director, A-Spine Asia Co., Ltd. Director, United Orthopedic Japan Inc.	None	None	None	-
					14,201	0.14%	0	0.00%	0	0.00%						
Deputy General Manager and Director of Operations Center	R.O.C.	Peng, Yu-Hsin	Female	2016.10.01	76,933	0.10%	0	0.00%	0	0.00%	Bachelor in Statistics, Tamkang University Financial Manager, Chuan-Yi Investment Inc. Chairman, Taiwan Home Care Co., Ltd.	Director, A-Spine Asia Co., Ltd. Director, United Orthopedic Japan Inc.	None	None	None	-
					0	0.00%	0	0.00%	0	0.00%						
Director of Research and Development Center	R.O.C.	Ho, Fang-Yuan	Female	2016.07.01	10,059	0.01%	37,167	0.05%	0	0.00%	Master in Materials Science & Engineering, National Taiwan University Assistant Researcher, Mackay Memorial Hospital	None	None	None	None	-
					0	0.00%	0	0.00%	0	0.00%						
Director of Operations Center	R.O.C.	Chou, Chin-Lung	Male	2016.07.01	48,805	0.06%	0	0.00%	0	0.00%	Ph.D. in Mechanical Engineering, National Cheng Kung University Vice Director of Department of Medical Equipment and Optoelectronic Equipment, Metal Industries Research & Development Center Secretary-General, Taiwan Forging Association	None	None	None	None	-
					4,551	0.05%	0	0.00%	0	0.00%						
Director of Department of Finance and Accounting	R.O.C.	Deng, Yuan-Chang	Male	2016.10.03	0	0.00%	0	0.00%	0	0.00%	Bachelor in Business Administration, Tamkang University University of Illinois Manager of Finance Department, Visera Technologies Co., Ltd. Assistant General Manager, Pihsiang Machinery MFG. Co., Ltd. Supervisor, A-SPINE Asia Co., Ltd.	Director, United Orthopedic Japan Inc.	None	None	None	-
					0	0.00%	0	0.00%	0	0.00%						

Note 1: Information on General Manager, Deputy General Managers, Assistant General Managers, heads of departments and branches shall be included. Persons who hold positions equivalent to General Manager, Deputy General Managers, or Assistant General Managers shall also be disclosed, regardless of job title.

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

Note 3: If the Chairman and the General Manager or a person holding an equivalent position (c-suite executive) are the same person, spouses or relatives within one degree of kinship, the reasons, reasonableness, and necessity, as well as measures to be taken accordingly (e.g., increasing the number of independent directors and more than half of the directors who are not concurrently employees or managerial officers) shall be addressed.

Note 4: The Chairman and General Manager of the Company are the same person, for he has more than 30 years of experience in international brand marketing in the field of orthopedic equipment. In domestic related industries, there is no homogeneous company having experience in international brand marketing, showing that the Company has its uniqueness in industrial management; in addition, the Company has elected two Independent Directors and two Supervisors to oversee the implementation of corporate governance before related laws and regulations are in place. At present, only two of our seven Directors concurrently serve as managerial officers within the Group, which is deemed reasonable and necessary.

III. Remuneration to Directors, Supervisors, the General Manager, and Deputy General Managers

(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; 2019

Title	Name	Remuneration to Directors								Ratio of Total Amount of A, B, C, and D to Net Income (Note 10)		Remuneration Paid to Concurrent Employees								Ratio of Total Amount of A, B, C, D, E, F, and G to Net Income (Note 10)		Remuneration Received from Other Non-subsidiary Companies in which the Company Has Invested (Note 11)
		Remuneration (A) (Note 2)		Retirement Pension (B)		Remuneration of Directors (C) (Note 3)		Business Execution Fees (D) (Note 4)				Salaries, Bonuses, and Special Expenses (E) (Note 5)		Retirement Pension (F)		Employee Remuneration (G) (Note 6)						
		The Company	Companies in the Consolidated Financial Statements (Note 7)	The Company	Companies in the Consolidated Financial Statements (Note 7)	The Company	Companies in the Consolidated Financial Statements (Note 7)	The Company	Companies in the Consolidated Financial Statements (Note 7)	The Company	Companies in the Consolidated Financial Statements (Note 7)	The Company	Companies in the Consolidated Financial Statements (Note 7)	The Company	Companies in the Consolidated Financial Statements (Note 7)	The Company		Companies in the Consolidated Financial Statements (Note 7)		The Company	Companies in the Consolidated Financial Statements (Note 7)	
																Cash	Stock	Cash	Stock			
Chairman	Lin, Yan-Shen	0	0	0	0	3,091	3,091	960	960	4.6%	4.6%	6,021	6,021	0	0	631	0	631	0	12.1%	12.1%	None
Director	Lin, Chun-Sheng																					
Director	Hau, Hai-Yen																					
Director	Chi-Yi Investment Co. Ltd. Lee, Chi-Fung																					
Director	Ng Chor Wah Patrick																					
Independent Director	Wang, Yueh-Cheng																					
Independent Director	Lee, Chun-Hsien																					

1. Remuneration policies, systems, standards, and structures for Independent Directors and linkage thereof to powers, risks, and time spent:

For remuneration to Directors and Independent Directors of the Company, the Board of Directors is authorized to decide on the amount based on the extent of involvement of each Director in the Company's business and the value contributed thereby, and by referring to the normal payment standards of the peers domestically and abroad.

2. In addition to the above, remunerations paid to Directors for the most recent year for providing services (e.g. serving as non-employee consultants) for the companies in the consolidated financial statements:

Table of Remuneration Ranges

Range of Remuneration to Directors	Name			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The Company (Note 8)	Companies in the Consolidated Financial Statements (Note 9) H	The Company (Note 8)	Companies in the Consolidated Financial Statements (Note 9) I
Less than NT$1,000,000	Lin, Yan-Shen, Lin, Chun-Sheng, Ng Chor Wah Patrick, Chi-Yi Investment Co. Ltd., Hau, Hai-Yen, Lee, Chun-Hsien, and Wang, Yueh-Cheng	Lin, Yan-Shen, Lin, Chun-Sheng, Ng Chor Wah Patrick, Chi-Yi Investment Co. Ltd., Hau, Hai-Yen, Lee, Chun-Hsien, and Wang, Yueh-Cheng	Lin, Chun-Sheng, Ng Chor Wah Patrick, Chi-Yi Investment Co. Ltd., Hau, Hai-Yen, Lee, Chun-Hsien, and Wang, Yueh-Cheng	Lin, Chun-Sheng, Ng Chor Wah Patrick, Chi-Yi Investment Co. Ltd., Hau, Hai-Yen, Lee, Chun-Hsien, and Wang, Yueh-Cheng
NT$1,000,000 (included)~NT$2,000,000 (not included)	None	None	None	None
NT$2,000,000 (included)~NT$3,500,000 (not included)	None	None	None	None
NT$3,500,000 (included)~NT$5,000,000 (not included)	None	None	Lin, Yan-Shen	Lin, Yan-Shen
NT$5,000,000 (included)~NT$10,000,000 (not included)	None	None	None	None
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); Directors and Independent Directors shall be listed separately, and the payment amounts shall be disclosed collectively. If Directors concurrently serve as the General Manager or Deputy General Managers, please fill in this table and Table 3-1 or Table 3-2-1 and Table 3-2-2.

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

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

Note 4: Business execution fees paid out to Directors for 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 for the most recent year (for positions that include the General Manager, Deputy General Managers, 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 for the most recent year (including the General Manager, Deputy General Managers, other managerial officers, or employees) and receiving the remuneration (including stock and cash), employee remuneration for 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 the companies (including the Company) in the consolidated financial statements shall be disclosed.

Note 8: For 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 the Company by the companies (including the Company) in the consolidated financial statements shall be disclosed. The names of the Directors shall be disclosed in the proper remuneration range.

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

Note 11:

a. Remuneration received by the Company's Directors from other non-subsidiary companies in which the Company has invested 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 Table of Remuneration Ranges. 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 remunerations disclosed in this table are calculated based on a concept different from the concept of income stipulated in the Income Tax Act. This table is provided for the purpose of information disclosure rather than taxation.

(2) Remuneration of supervisors

Unit: NT$1,000; 2019

Title	Name	Remuneration of Supervisors						Ratio of Total Amount of A, B, and C to Net Income (Note 8)		Remuneration Received from other Non-subsidiary Companies in which the Company Has Invested (Note 9)
		Base Compensation (A) (Note 2)		Compensation (B) (Note 3)		Business Execution Fees (C) (Note 4)				
		The Company	Companies in the Consolidated Financial Statements (Note 5)	The Company	Companies in the Consolidated Financial Statements (Note 5)	The Company	Companies in the Consolidated Financial Statements (Note 5)	The Company	Companies in the Consolidated Financial Statements (Note 5)	
Supervisor	Wang, Ching-Hsiang	0	0	0	0	1,440	1,440	1.6%	1.6%	0
Supervisors	Chen, Li-Ju									
Supervisor	Wong, Chi-Yin									

Table of Remuneration Ranges

Range of Remuneration to Supervisors	Name of Supervisor	
	Total of (A+B+C)	
	The Company (Note 6)	Companies in the Consolidated Financial Statements (Note 7) D
Less than NT$1,000,000	Wang, Ching-Hsiang, Chen, Li-Ju, and Wong, Chi-Yin	Wang, Ching-Hsiang, Chen, Li-Ju, and Wong, Chi-Yin
NT$1,000,000 (included)~NT$2,000,000 (not included)	None	None
NT$2,000,000 (included)~NT$3,500,000 (not included)	None	None
NT$3,500,000 (included)~NT$5,000,000 (not included)	None	None
NT$5,000,000 (included)~NT$10,000,000 (not included)	None	None
NT$10,000,000 (included)~NT$15,000,000 (not included)	None	None
NT$15,000,000 (included)~NT$30,000,000 (not included)	None	None
NT$30,000,000 (included)~NT$50,000,000 (not included)	None	None
NT$50,000,000 (included)~NT$100,000,000 (not included)	None	None
More than NT$100,000,000	None	None
Total	3 people	3 people

Note 1: The names 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 for the most recent year (including Supervisor's salary, executive differential pay, severance, various bonuses, and performance fees).

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

Note 4: Business execution fees paid out to Supervisors for 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 the companies (including the Company) in the consolidated financial statements shall be disclosed.

Note 6: For 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: Total remuneration in various items that are paid to every Supervisor of the Company by the companies (including the Company) in the consolidated financial statements shall be disclosed in accordance with the corresponding range of the remuneration.

Note 8: Net income refers to net income after tax for the most recent year. If IFRS is adopted, net income refers to net income stated in the parent company only financial statements or individual financial report for the most recent year.

Note 9:

a. Remuneration received by the Company's Supervisor 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 Table of Remuneration Ranges. 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 remunerations disclosed in this table are calculated based on a concept different from the concept of income stipulated in the Income Tax Act. This table is provided for the purpose of information disclosure rather than taxation.

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

Unit: NT$1,000; 2019

Title	Name	Remuneration (A) (Note2)		Retirement Pension (B)		Bonuses and Special Expenses (C) (Note 3)		Profit Sharing Employee Bonus (D) (Note 4)				Ratio of Total Amount of A, B, C, and D to Net Income (%) (Note 8)		Remuneration Received from Other Non-subsidiary Companies in which the Company Has Invested (Note 9)
		The Company	Companies in the Consolidated Financial Statements (Note 5)	The Company	Companies in the Consolidated Financial Statements (Note 5)	The Company	Companies in the Consolidated Financial Statements (Note 5)	The Company		Companies in the Consolidated Financial Statements (Note 5)		The Company	Companies in the Consolidated Financial Statements (Note 5)	
								Cash	Stock	Cash	Stock			
General Manager	Lin, Yan-Shen	13,380	13,380	0	0	0	0	1,241	0	1,241	0	16.5%	16.5%	None
Deputy General Manager	Liau, Jiann-Jong													
Deputy General Manager	Peng, Yu-Hsin													

* Regardless of titles, remunerations of employees holding positions equivalent to the General Manager or Deputy General Managers (e.g., President, CEO, and Director) shall be disclosed.

Table of Remuneration Ranges

Range of Remuneration to General Manager and Deputy General Managers	Name	
	The Company (Note 6)	Companies in the Consolidated Financial Statements (Note 7) E
Less than NT$1,000,000	None	None
NT$1,000,000 (included)~NT$2,000,000 (not included)	None	None
NT$2,000,000 (included)~NT$3,500,000 (not included)	None	None
NT$3,500,000 (included)~NT$5,000,000 (not included)	Liau, Jiann-Jong and Peng, Yu-Hsin	Liau, Jiann-Jong and Peng, Yu-Hsin
NT$5,000,000 (included)~NT$10,000,000 (not included)	Lin, Yan-Shen	Lin, Yan-Shen
NT$10,000,000 (included)~NT$15,000,000 (not included)	None	None
NT$15,000,000 (included)~NT$30,000,000 (not included)	None	None
NT$30,000,000 (included)~NT$50,000,000 (not included)	None	None
NT$50,000,000 (included)~NT$100,000,000 (not included)	None	None
More than NT$100,000,000	None	None
Total	3 people	3 people

Note 1: Names of the General Manager and Deputy General Managers shall be disclosed separately and grouped into different remuneration levels. If a Director also serves as the General Manager or Deputy General Manager, please fill in this table and Table 1-1 or Table 1-2.

Note 2: Remuneration, executive differential pay, and severance pay to the General Manager and Deputy General Managers for the most recent year.

Note 3: Cash and non-cash compensations to the General Manager and Deputy General Managers for 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 stock and cash) given to the General Manager and Deputy General Managers approved by the Board of Directors for the most recent year shall be disclosed. However, if an estimated figure cannot be derived, this year's budgeted compensations shall be calculated based on last year's actual compensations and Schedule 1-3 shall be filled out. Net income refers to net income after tax for the most recent year. If IFRS is adopted, net income refers to net income stated in the parent company only financial statements or individual financial reports for 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 refers to net income after tax for the most recent year. If IFRS is adopted, net income refers to net income stated in the parent company only financial statements or individual financial report for 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 Managers receive remunerations from non-subsidiaries companies in which the Company has invested, the remunerations received by the General Manager and Deputy General Managers shall be included in Column E in the Table of Remuneration Ranges. 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 General Manager or Deputy General Manager of the Company for serving as a Director, Supervisor, or managerial officer at other non-subsidiary companies in which the Company has invested.

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

(4) Names of managerial officers receiving employee remuneration and status of allocation
2019

	Title	Name	Stock	Cash	Total	Ratio (%) of Total Amount to Net Income (%)
Managerial Officers	Chairman	Lin, Yan-Shen	0	2,054	2054	2.3%
	Deputy General Manager	Liau, Jiann-Jong				
	Deputy General Manager	Peng, Yu-Hsin				
	Director of Operations Center	Chou, Chin-Lung				
	Director of Research and Development Center	Ho, Fang-Yuan				
	Director of Department of Finance and Accounting	Deng, Yuan-Chang				

Note 1: Individual names and titles shall be disclosed, but profits allocated may be disclosed as a total sum.

Note 2: Employee remunerations (including stock and cash) given to the General Manager and Deputy General Managers approved by the Board of Directors for the most recent year shall be disclosed. However, if an estimated figure cannot be derived, this year's budgeted compensations shall be calculated based on last year's actual compensations. Net income refers to net income after tax for the most recent year. If IFRS is adopted, net income refers to net income stated in the parent only company financial statements or individual financial report for the most recent year.

Note 3: The term "managerial officers" 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 General 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, and Deputy General Managers of the Company receive employee remunerations (including stock and cash), please fill in Schedule 1-2 and this table as well.

(II) If the Company exhibits one of the following matters, remuneration to individual Director and Supervisor shall be disclosed:

(1) For the parent company only financial statements or individual financial reports for the most recent three years that exhibit net losses after tax, remunerations to individual Directors and Supervisors shall be disclosed. However, this does not apply to the parent company only financial statements or individual financial reports for the most recent year that exhibit net income after tax sufficient to make up for the losses: N/A.

(2) For Directors who do not hold sufficient shares for three consecutive months in the most recent year, remunerations to individual Directors shall be disclosed; for Supervisors who do not hold sufficient shares for three consecutive months in the most recent year, remunerations to individual Supervisors shall be disclosed: None.

(3) For Directors and Supervisors whose average pledge ratio is higher than 50% in any of the three months in the most recent year, remunerations to individual Directors and Supervisors whose pledge ratio is higher than 50% in the particular month shall be disclosed: None.

(4) If the total amount of remuneration received by all of the Directors and Supervisors in their capacity as Directors or Supervisors of the companies in the consolidated financial statements exceeds 2% of 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: None.

(5) The Company is ranked in the lowest tier in the corporate governance evaluation for the most recent year, or for the most recent year and up to the date of publication of the Annual Report, the Company's securities have been placed under an altered trading method, suspended from trading, delisted from the TWSE or TPEx, or the Corporate Governance Evaluation Committee has resolved that the Company shall be excluded from evaluation: None.

(6) The average annual salary of the full-time non-supervisory employees in the Company is less than NT$500,000: None.

(III) If the circumstance in the sub-item (1) or (5) of the preceding item applies to the Company, the Company shall disclose the individual remuneration paid to each of its top five management personnel: None.

(IV) Compare and analyze the total remuneration as a percentage of net income stated in the parent company only financial statements or individual financial reports, paid by the Company and by all consolidated entities for the most recent two years to the Company's Directors, Supervisors, General Manager, and Deputy 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. Total remuneration as a percentage of net income stated in the parent company only financial statements or individual financial reports, paid by the Company and by all consolidated entities for the most recent two years to the Company's Directors, Supervisors, General Manager, and Deputy General Managers:

Title		Ratio of Total Remuneration to Directors, Supervisors, General Manager, and Deputy General Managers Paid by the Company for 2018 to Net Income Stated in the Parent Company Only Financial Statements or Individual Financial Reports	Ratio of Total Remuneration to Directors, Supervisors, General Manager, and Deputy General Managers Paid by All Consolidated Entities for 2018 to Net Income Stated in the Parent Company Only Financial Statements or Individual Financial Reports	Ratio of Total Remuneration to Directors, Supervisors, General Manager, and Deputy General Managers Paid by the Company for 2019 to Net Income Stated in the Parent Company Only Financial Statements or Individual Financial Reports	Ratio of Total Remuneration to Directors, Supervisors, General Manager, and Deputy General Managers Paid by All Consolidated Entities for 2019 to Net Income Stated in the Parent Company Only Financial Statements or Individual Financial Reports
Directors	First 4 items	4.1%	4.1%	4.6%	4.6%
	First 7 items	10.5%	10.5%	12.1%	12.1%
Supervisors		1.1%	1.1%	1.6%	1.6%
General Manager and Deputy General Managers		12.0%	12.0%	16.5%	16.5%

2. Policies, standards, and packages for payment of remuneration, 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 Managers 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 the 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)	Attendance in Person (B)	Attendance by Proxy	Percentage of Attendance in Person (%) (B/A) (Note 2)	Remark
Chairman	Lin, Yan-Shen	6	0	100%	None
Director	Lin, Chun-Sheng	2	2	33.3%	None
Director	Hau, Hai-Yen	5	0	83.3%	None
Director	Ng Chor Wah Patrick	3	0	50%	None
Director	Chi-Yi Investment Co. Ltd. Representative: Lee, Chi-Fung	6	0	100%	None
Independent Director	Lee, Chun-Hsien	6	0	100%	None
Independent Director	Wang, Yueh-Cheng	5	1	83.3%	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 2019. Please refer to pages 31-32 of the Annual Report for details on the date and number of the 2019 Board meetings and the content of proposals.

II. When Directors abstain themselves for being a stakeholder in certain proposals, the names 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 2019.

III. TWSE/TPEx listed companies shall disclose the cycle and period, scope, method, and contents of self-evaluations (or peer evaluations) of the Board of Directors and fill in Schedule 2-(2) in regard to the implementation of the Board evaluations.
   The Company currently does not adopt the self-evaluations of the Board of Directors. The Company plans to introduce related methods for evaluating the Board performance after setting up an audit committee.

IV. The target and implementation results of enhancing the functionality of the Board of Directors, such as the establishment of an audit committee and enhancement of information transparency, in the current year and the most recent year: To achieve the target of enhancing information transparency, the Company has disclosed relevant information timely on the Market Observation Post System (MOPS) for investors' reference.

Note 1: For corporate Directors/Supervisors, the names 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. The percentage of attendance in person (%) shall be calculated using the number of Board meetings convened and attendance in person during the term of service.
(2) Where Directors and Supervisors are 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 is outgoing, incoming, or re-elected, as well as the date of re-election shall be noted in the Remark Column. The percentage of attendance in person (%) shall be calculated using the number of Board meetings convened and attendance in person 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	Attendance in Person (B)	Percentage of 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):

(II) Supervisors would talk to employees or shareholders directly, if necessary, when attending the Company's Board meetings or shareholders' meetings in person.

Communication between Supervisors and the Head of Internal Audit and CPAs (including Issues, Audit Methods, and Results regarding the Company's Finances and Business):

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. Supervisors might also communicate with the CPAs directly via phone, email, and other methods.

II. If Supervisors state 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 opinions shall be specified:

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 percentage of attendance in person (%) shall be calculated based on attendance in person during the Supervisor's term of service.
* Where Supervisors are re-elected before the end of the year, both the incoming and outgoing Supervisors shall be filled in accordingly. Whether the Supervisor is outgoing, incoming, or re-elected, as well as the date of re-election shall be noted in the Remark column. The percentage of attendance in person (%) shall be calculated using attendance in person during the term of service.

(III) Operations of Corporate Governance, Variances from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and Reasons Thereof

Assessed Items	Current Operations (Note)			Variances from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof
	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 formulate relevant guidelines or code of practice relating to corporate governance after setting up an audit committee.	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," "Guidelines of Board of Directors' Meeting," and "Articles of Remuneration Committee."
II. The shareholding structure of the Company and shareholders' rights (I) Has the Company established an internal SOP to respond to shareholders' suggestions, questions, disputes, and lawsuits, and implement them according to the procedure? (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? (III) Has the Company established and executed the mechanisms of risk management and firewall among its affiliates? (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 V V V		(I) Currently handled by the spokesperson. (II) Keep in touch with the main shareholders. (III) Conduct in accordance with the relevant regulations of the Company. (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."	None
III. Organization and responsibilities of the Board of Directors (I) Has the Board of Directors drawn up policies on diversity of its members and implemented them? (II) Is the Company willing to establish any other various functional committees, except for the Remuneration	V	V	(I) Other than the management team, the members of the Board of Directors who are involved in the operations of the Company include external Directors and Independent Directors. (II) The Remuneration Committee has been founded in accordance with the regulations. Committees	None

<table>
<tr><th rowspan="2">Assessed Items</th><th colspan="3">Current Operations (Note)</th><th rowspan="2">Variances from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td>Committee and Audit Committee, which are required by law?

(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?
(IV) Does the Company assess the independence of certified public accountants on a regular basis?</td><td>

V

V</td><td></td><td>with other functions will be founded in accordance with operational scale of the Company.
(III) The Remuneration Committee is responsible for the periodic evaluation of the performance of the members of the Board of Directors.

(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.</td><td></td></tr>
<tr><td>IV. Has the Company set up adequate personnel and a corporate governance officer to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by Directors and Supervisors, helping Directors and Supervisors comply with laws and regulations, handling matters relating to Board meetings and shareholders' meetings according to laws, and producing minutes of Board meetings and shareholders' meetings)?</td><td>V</td><td></td><td>The units that are responsible for governing the Company are the General Manager's Office and Department 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.</td><td>None</td></tr>
<tr><td>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?</td><td>V</td><td></td><td>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.</td><td>None</td></tr>
<tr><td>VI. Has the Company commissioned a professional shareholder service agency to organize shareholders' meeting and handle other relevant affairs?</td><td>V</td><td></td><td>The Company's securities-related matters has been delegated to the Transfer Agency Department of Jih-Sun Securities Co. Ltd.</td><td>None</td></tr>
<tr><td>VII. Information disclosure
(I) Does the Company build a website to disclose information on financial statements and corporate governance?</td><td>
V</td><td></td><td>
The Company has set up websites that contain the introduction of the Company and material business</td><td>
The Company plans to formulate relevant guidelines or code of</td></tr>
</table>

<table>
<tr><th rowspan="2">Assessed Items</th><th colspan="3">Current Operations (Note)</th><th rowspan="2">Variances from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td>(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 releasing the records of road shows on the company website)?
(III) Does the Company announce and register the annual financial statements within two months after the close of each fiscal year and the quarterly financial statements and the monthly operating status within the given time limits?</td><td>V</td><td>V</td><td>and financial information. The Company has also disclosed information that is related to corporate governance on the MOPS. The Company has shared a link on the Company's website; shareholders and investors may check the link for more information by themselves.</td><td>practice relating to corporate governance after setting up an audit committee. Relevant information on corporate governance will be disclosed on the Company's website.

Considering numerous overseas operations, the Company will disclose such information as soon as possible in line with the financial statements audited by the CPAs.</td></tr>
<tr><td>VIII. 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.
(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 2019. The Directors and Supervisors are informed of the latest updates of regulations regarding corporate governance.
(III) The risk management policy and implementation of risk measurement: N/A (applicable to securities firms).
(IV) Implementation of policies to protect consumers or customers: N/A (applicable to securities firms).
(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>None</td></tr>
</table>

Assessed Items	Current Operations (Note)			Variances from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof
	Yes	No	Summary	
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.) The Company was not evaluated.				

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

Training Courses Taken by Directors and Supervisors in 2019

Title	Name	Date	Organizer	Course Name	Time	Whether in Line with the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies"
Chairman and General Manager	Lin, Yan-Shen	December 11, 2019	Securities and Futures Institute	Corporate Strategy and Key Performance Indicators	3 hours	Yes
		December 11, 2019	Securities and Futures Institute	A Discussion on the Utilization of Employee Compensation Strategies and Tools	3 hours	Yes
Director	Lin, Chun-Sheng	August 7, 2019	Securities and Futures Institute	Exploring How to Read an "Appraisal Report"	3 hours	Yes
		August 13, 2019	Securities and Futures Institute	Impacts of the Newly Promulgated "Labor Incident Act" and Responses	3 hours	Yes
Director	Hau, Hai-Yen	November 4, 2019	Accounting Research and Development Foundation	Internal Audit Seminar: Auditors' Professional Knowledge and Responsibility	6 hours	Yes
Representative of the Corporate Director	Lee, Chi-Fung	December 19, 2019	Securities and Futures Institute	Corporate Governance and Updates on Amendments	3 hours	Yes
		December 19, 2019	Securities and Futures Institute	A Discussion on Intellectual Property Rights - Trade Secrets	3 hours	Yes
Director	Ng Chor Wah Patrick	October 23, 2019	AICPA	Blockchain 101	1 hour	Yes
		October 23, 2019	AICPA	Financial Forecasting: Planning for Success	2 hours	Yes
		October 23, 2019	AICPA	Blockchain Evolution and Technology Concepts	3.5 hours	Yes
Independent Director	Wang, Yueh-Cheng	August 21, 2019	Accounting Research and Development Foundation	Responses to the Statutory Establishment of Independent Directors and Audit Committee by TWSE/TPEx Listed Companies	3 hours	Yes
		November 27, 2019	Accounting Research and Development Foundation	Comparison between the "Economic Espionage Act" (the U.S.) and the "Trade Secrets Act" (Taiwan), Legal Responsibility, and Case Study	3 hours	Yes
Independent Director	Lee, Chun-Hsien	December 25, 2019	Accounting Research and Development Foundation	Internal Audit and Control Practices in the Digital Economy Era	6 hours	Yes
Supervisor	Wong, Chi-Yin	November 8, 2019	Accounting Research and Development Foundation	Impacts of the Newly Promulgated "Labor Incident Act" and Compliance/Audit Practices	6 hours	Yes

Supervisor	Wang, Ching-Hsiang	August 13, 2019	Taiwan CPA Association, ROC	Updates on Tax Laws and Practices	7 hours	Yes
Supervisor	Chen, Li-Ju	January 24, 2019	Taiwan CPA Association, ROC	Updates on Business Registration and Capital Audit Practices	3 hours	Yes
		February 26, 2019	Taiwan CPA Association, ROC	New Challenges for CPAs on APG Evaluations	3 hours	Yes
		March 22, 2019	Taiwan CPA Association, ROC	New Thinking on Taiwanese Businessmen's Cross-strait Trade and Investment amid the Global Trade War	3 hours	Yes
		March 29, 2019	Taiwan CPA Association, ROC	Interpretation of Tax Laws on the Repatriation of Funds from Taiwanese Businessmen and Case Study	3 hours	Yes
		August 21, 2019	Accounting Research and Development Foundation	Responses to the Statutory Establishment of Independent Directors and Audit Committee by TWSE/TPEx Listed Companies	3 hours	Yes
		October 15, 2019	Taiwan CPA Association, ROC	Application of Internal Controls to Anti-money Laundering and Countering Financing of Terrorism by Accounting Firms	3 hours	Yes

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

(1) Terms of reference: Members of the Remuneration Committee shall perform the following duties faithfully as good administrators and be responsible to the Board of Directors, and shall submit the recommendations to the Board of Directors for discussion:

1. Prescribe and periodically review the policies, systems, standards, and structures of the performance evaluation and remuneration of Directors, Supervisors and managerial officers.
2. Periodically evaluate and prescribe the remuneration of Directors, Supervisors, and managerial officers.

However, recommendations for the remuneration of Supervisors may be submitted for deliberation by the Board of Directors only when the Board of Directors is expressly authorized to handle the Supervisors' remuneration by the Company's Articles of Association or by a resolution of the shareholders' meeting.

(2) Information on the members of the Company's Remuneration Committee:

Status (Note 1)	Condition / Name	Does the Member 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 Has 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	9	10		
Independent Director	Lee, Chun-Hsien			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	
Independent Director	Wang, Yueh-Cheng	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	
Others	Lee, Kuen-Chang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	4	

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

Note 2: Please tick off 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 employee of the Company or any of its affiliates.

(2) Not a director or supervisor of the Company or any of its affiliates (not applicable in cases where the person is an Independent Director of the Company, its parent company, or any subsidiary as appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent or subsidiary).

(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 of any of the managerial officers in the first subparagraph or the persons in the second and third subparagraphs.

(5) Not a Director, Supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the Company, of a corporate shareholder that ranks among the top five in shareholdings, or of a corporate shareholder that elects its authorized representative as a Director or Supervisor of the Company in accordance with Paragraph 1 or 2, Article 27 of the Company Act. This restriction does not apply to cases where the person is concurrently an Independent Director of the Company and its parent company or subsidiary or any subsidiary of the same parent company as appointed in accordance with the Securities and Exchange Act or the laws of the country of the said company.

(6) Not a Director, Supervisor, or employee of a company who is a Director of the Company or holds the majority of the voting shares. This restriction does not apply to cases where the person is concurrently an Independent Director of the Company and its parent company or subsidiary or any subsidiary of the same parent company as appointed in accordance with the Securities and Exchange Act or the laws of the country of the said company.

(7) Not a Director, Supervisor, or employee of a company or institution who is the chairman, general manager or a person with an equivalent position of the Company or a

spouse thereof. This restriction does not apply to cases where the person is concurrently an Independent Director of the Company and its parent company or subsidiary or any subsidiary of the same parent company as appointed in accordance with the Securities and Exchange Act or the laws of the country of the said company.

(8) Not a Director, Supervisor, managerial officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the Company. This restriction does not apply to cases where the specified company or institution holds more than 20% but less than 50% of the shares of the Company and the person is concurrently an Independent Director of the Company and its parent company or subsidiary or any subsidiary of the same parent company as appointed in accordance with the Securities and Exchange Act or the laws of the country of the said company.

(9) Not a professional individual who is an owner, partner, Director, Supervisor, or managerial officer of a sole proprietorship, partnership, company, or institution that offers audit services or offers commercial, legal, financial, or accounting services for which he/she has received the total remuneration of less than NT$500,000 over the past two years to the Company or any of its affiliates, nor a spouse thereof. This restriction does not apply to any member of the remuneration committee, public tender offer review committee or merger and acquisition special committee who exercises powers pursuant to the Securities and Exchange Act or Business Mergers and Acquisitions Act.

(10) Not under any conditions set out in Article 30 of the Company Act.

(3) Operations 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	Attendance in Person (B)	Attendance by Proxy	Percentage of Attendance (%) (B/A) (Note)	Remark
Convener	Lee, Chun-Hsien	3	0	100%	
Committee Member	Wang, Yueh-Cheng	3	0	100%	
Committee Member	Lee, Kuen-Chang	2	1	67%	

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 in 2019 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 in 2019.

Note: (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. The percentage of attendance in person (%) shall be calculated using the number of the Remuneration Committee meetings convened and attendance in person 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-elected members, along with the elected date, in the remark column. The percentage of attendance in person (%) shall be calculated based on the number of meetings held during a member's term in the Remuneration Committee and attendance in person of the member.

(V) Operations of Corporate Social Responsibility, Variances from Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and Reasons Thereof

Assessed Items	Current Operations (Note 1)			Variances from Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof
	Yes	No	Summary (Note 2)	
I. Has the Company assessed the environmental, social, and corporate governance risks related to its operations based on the principle of materiality and established related risk management policies or strategies? (Note 3)	V		The Company has stipulated regulations regarding the risk assessments on environmental, social, and governance (ESG) issues in the work guidelines and SOP regulations, respectively. The Company plans to formulate an overall risk management policy after setting up an audit committee.	None
II. Does the Company establish an exclusively (or part-time) dedicated unit for promoting corporate social responsibility? Is the unit authorized by the Board of Directors to implement CSR activities at the executive level? Does the unit report the progress of such activities to the Board of Directors?	V		The CSR activities are jointly promoted by the Board of Directors, General Manager's Office, and Department of Administration.	None
III. Environmental issues (I) Does the Company establish a suitable environmental management system based on its industrial characteristics? (II) Is the Company committed to improving the efficiency of utilizing various resources and using recycled materials with low impacts on the environment?	V V		(I) The Company is compliant with the relevant the regulations on public safety of buildings, fire regulations, labor safety regulations, waste disposal regulations, energy saving and carbon reduction management stipulated by Science and Industrial Park. The Company also conducts inspection and reports regularly. The Company plans to introduce ISO14001 Environmental Management System in hope to reduce waste and utilize resources effectively. (II) The recycle and reuse of wastes of the Company have been delegated to the waste cleaning company. Waste water and rain water recycle device has been planned in the new plants, and the new plants has complied with the energy saving requirements of the authorities.	None

Assessed Items	Current Operations (Note 1)			Variances from Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof
	Yes	No	Summary (Note 2)	
(III) Does the Company assess the potential risks and opportunities of climate change for its current and future operations and undertake response measures with respect to climate change?	V		(III) The Company is engaged in the industry that produce non-energy consuming and non-high pollution products. The Company will continue to observe the impact of climates on the operating activities, and carry out the strategic plan and action plan of energy saving and carbon reduction.	
(IV) Does the Company calculate the amount of greenhouse gas emission, water consumption, and waste production in the past two years and implement policies to cut down energy and water consumption, carbon and greenhouse gas emissions, and waste production?	V		(IV) The Company attaches great importance to the sustainable development of both the business and environment. We regularly gather statistic and trace the use of resources and greenhouse gas emissions. Our main energy consumption includes externally purchased electricity and natural gas. In the recent three years, electricity consumption has increased in step with the expanded production capacity. In response, the Company has set up a energy audit system and set the energy conservation targets and action plans to fulfill corporate social responsibility.	
IV. Social issues				None
(I) Has the Company set up relevant management policies and procedures according to related laws and regulations as well as the International Bill of Human Rights?	V		(I) The personnel guidelines of the Company are stipulated under the spirit that is superior to the Labor Standards Act. The major changes of employee rights will be negotiated through labor meetings. The current labor relation is in harmony.	
(II) Does the Company establish and deliver reasonable employee welfare programs (including salary, compensated absences, and other benefits) and adjust employee compensation in relation to business performance?	V		(II) The Company has stipulated performance assessment methods with the combination of all remuneration policies to share the Company's operating results with the employees.	
(III) Has the Company offered a safe and healthy work environment for its employees and offered the employees safety and health education?	V		(III) The Company conducts periodic health examination on employees in accordance with the policies. Each plant has established the Department of Construction	

Assessed Items	Current Operations (Note 1)			Variances from Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof
	Yes	No	Summary (Note 2)	
			Safety that directly reports to the General Manager, holds Labor Safety and Health Committee meetings periodically, and evaluates employee work environment. The Company currently plans to introduce the new ISO 45001 Occupational Health and Safety Management System to provide a healthy work environment for the employees.	
(IV) Does the company provide its employees with career development and training sessions?	V		(IV) Each department of the Company has planned annual training for its respective employees to comply with the requirements of the position.	
(V) Has the Company followed relevant laws, regulations and international guidelines for the customer health and safety, customer privacy, and marketing and labeling of its products and services and established related consumer protection policies and grievance procedures?	V		(V) The Company's products are related to implementing artificial joints in the human bodies. The sales of products are required to go through strict certification procedures. SOPs have been set up for the workflows of the Company and the relevant records have been documented. The customer complaint channels have been clearly labeled on the product. The "Stakeholder" section has been established on the Company's website for providing feedback. The complaint handling procedures in the Company has been clearly set up to provide effective responses to the customers.	
(VI) Has the Company established the supplier management policies requesting suppliers to comply with laws and regulations related to environmental protection, occupational safety and health or labor rights and supervised their compliance?	V		(VI) The suppliers of the Company are required to go through standard certification procedures before they become eligible suppliers. The inspection information of the relevant production of materials that are implemented in the human bodies are required for the purposes of follow ups. The contracts between the Company and the suppliers are not long-term purchase agreements. All products need to be inspected before they are put in the inventory. Those that fail the inspection will be returned. Assessment and field	

Assessed Items	Current Operations (Note 1)			Variances from Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof
	Yes	No	Summary (Note 2)	
			auditing will be given on suppliers periodically and the relationship will be terminated for those who fail to meet the requirement.	
V. Does the Company, following internationally recognized guidelines or instructions, prepare and publish reports such as corporate social responsibility reports to disclose non-financial information of the Company? Are these reports assured or verified by a neutral third party?	V		Since 2016, the Company has prepared and published the corporate social responsibility reports in line with the internationally recognized guidelines or instructions and based on the "Core" option set forth in the GRI Standards published by the Global Reporting Initiative (GRI). Our corporate social responsibility reports have been assured by Ernst & Young.	None
VI. 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 above document: 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 continuously promote and implement CSR activities in 2020, and relevant CSR policies or mechanisms will be established after an audit committee is set up.				
VII. Other important information helpful in understanding the operations of CSR: 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 social environment. The Company has introduced ISO14001 Environmental Management System in hopes of reducing waste and utilize resources effectively. 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 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. 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.				

Assessed Items	Current Operations (Note 1)			Variances from Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof
	Yes	No	Summary (Note 2)	
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. 5. Safety and health: The Company has the Department of Construction Safety in place 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 has introduced the new ISO 45001 Occupational Health and Safety Management System to provide a healthy work environment for employees.				

Note 1: If "Yes" under the Current Operations is ticked off, please explain the key policies, strategies, and measures adopted and their implementation results; if "No" is ticked off, please give the reason and specify related policies, strategies, and measures to be adopted in the future.

Note 2: If the Company has compiled CSR reports, it may specify ways to access the reports and indicate the page numbers of the cited pages.

Note 3: The principle of materiality refers to environmental, social, and governance issues that have significant impacts on the Company's investors and other stakeholders.

(VI) Operations of Ethical Corporate Management, Variances from the Ethical Corporate Management Best-Practice Principles for TW1SE/TPEx Listed Companies, and Reasons Thereof

Assessed Items	Current Operations (Note)			Variances from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof
	Yes	No	Summary	
I. Formulating policies and plans for ethical management				None
(I) Has the Company established the ethical corporate management policies approved by the Board of Directors and specified in its rules and external documents the ethical corporate management policies and practices and the commitment of the Board of Directors and senior management to rigorous and thorough implementation of such policies?	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.	
(II) Has the Company established a risk assessment mechanism against unethical conduct, analyzed and	V		(II) The Company has included relevant plans in the regulations, such as management regulations,	

Assessed Items	Current Operations (Note)			Variances from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof
	Yes	No	Summary	
assessed on a regular basis business activities within its business scope which are at a higher risk of being involved in unethical conduct, and established prevention programs accordingly, which shall at least include the preventive measures specified in Paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies"?			guidelines, and handling procedures, and will fulfill the commitment of ethical operations through new employee and department training.	
(III) Has the Company specified in its prevention programs the operating procedures, guidelines, punishments for violations, and a grievance system and implemented them and review the prevention programs on a regular basis?	V		(III) The Company has established SOPs and regulations for daily transaction procedures and provided clear guidelines on unethical behaviors.	
II. Implementation of ethical business operations (I) Does the Company evaluate business partners' ethical records and include ethics-related clauses in business contracts?	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.	None
(II) Has the Company set up a dedicated unit under the Board of Directors to promote ethical corporate management and regularly (at least once every year) report to the Board of Directors the implementation of the ethical corporate management policies and prevention programs against unethical conduct?		V	(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.	

Assessed Items	Current Operations (Note)			Variances from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof
	Yes	No	Summary	
(III) Has the Company set up policies to prevent conflict of interest, and provided an appropriate reporting channel in practice? (IV) Has the Company established effective accounting systems and internal control systems to implement ethical corporate management and had its internal audit unit, based on the results of assessment of the risk of involvement in unethical conduct, devise relevant audit plans and audit the compliance with the prevention programs accordingly or entrusted a CPA to conduct the audit? (V) Does the Company host routine internal and external ethical business operations training?	V V V		(III) The Company has established appropriate regulations in relevant management regulations and has set up corresponding channels for opinions to prevent transactions containing conflicts of interest from happening. (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. (V) The Company arranges internal and external training 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 (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? (II) Has the Company established the standard operating procedures for investigating reported misconduct, follow-up measures to be adopted after the investigation, and related confidentiality mechanisms? (III) Has the Company adopted measures to protect whistle-blowers from being subject to inappropriate treatment because of reporting a case?	V V V		(I) The Company currently has employee opinion feedback mailbox, which is handled by administrative units in accordance with the Company's relevant regulations. (II) The Company has set up management guidelines for the opinion mailbox, which includes acceptance and handling procedures. (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.	None

Assessed Items	Current Operations (Note)			Variances from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons Thereof
	Yes	No	Summary	
IV. Strengthening information disclosure Does the Company disclose its ethical corporate management policies and the results of its implementation on the Company's 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.	None
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 gaps between the prescribed best practices and actual activities taken by the Company: 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 by employees at all levels of the Company. 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 ticked off under the Current Operations, the Company shall state an appropriate explanation in the "Summary" column.

(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 19, 2020

According to the results of the Company's self-assessment, the Company's statement pertaining to the internal control system in 2019 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 managerial officers of the Company. The Company has constructed such a system. Its goals are to provide reasonable assurance on target achievement (including profit, performance and guaranteeing the safety of assets, etc.), reliability of the information in the financial report, and compliance with relevant laws and regulations.

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, 2019, 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 19, 2020, and of the seven 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

General Manager: Lin, Yan-Shen

(2) If the Company entrusts a project-based accountant to review the internal control system, the accountant's audit report shall be disclosed: None.

(X) If there has been any legal penalty against the Company or its internal personnel, or any disciplinary penalty by the Company against its internal personnel for violation of the internal control system during the most recent fiscal year up to the publication date of the Annual Report, where the result of such penalty could have a material effect on shareholder equity or securities prices, the penalty, the main shortcomings, and condition of improvement shall be disclosed: None.

(XI) Significant Resolutions Made in/by the Shareholders' Meeting and the Board of Directors for the Most Recent Year up to the Publication Date of the Annual Report

(1) Shareholders' meeting

Date	Significant Resolutions at the Shareholders' Meeting
2019.06.19	1. Passed the 2018 business report and financial statements 2. Passed the proposal for 2018 earnings distribution Results of implementation: The ex-dividend base date and issuance date were determined to be July 22, 2019 and August 16, 2019 respectively, on the Board of Directors' meeting on June 19, 2019. 3. Passed the amendments to partial provisions of the Company's Articles of Association 4. Passed the amendments to the Company's "Rules of Procedures for Shareholders' Meetings" 5. Passed the amendments to the Company's "Procedures for Election and Appointment of Directors" 6. Passed the amendments to the Company's "Procedures for Acquisition or Disposal of Assets" 7. Passed the amendments to partial provisions of the Company's "Procedures for Loaning of Funds to Others" 8. Passed the amendments to partial provisions of the Company's "Operating Procedures for Endorsements and Guarantees" 9. Passed the proposal for the distribution of cash dividends from capital surplus Results of implementation: The ex-dividend base date and issuance date were determined to be July 22, 2019 and August 16, 2019 respectively, on the Board of Directors' meeting on June 19, 2019.

(2) Board of Directors' meetings

Date	Significant Resolutions at the Meeting
2019.03.18	1. Passed the resolution of 2018 remuneration distribution to employees, Directors, and Supervisors' 2. Passed the adjustment of the Company's managerial officers' remuneration 3. Passed the Company's 2018 financial statements and business reports 4. Passed the resolution of the internal control system statement 5. Passed the resolution of the Company's 2018 earnings distribution 6. Passed the proposal for the distribution of cash dividends from capital surplus 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. 8. Passed the amendments to partial provisions of the Company's Articles of Association 9. Passed the amendments to the Company's "Procedures for Election and Appointment of Directors" 10. Passed the amendments to the Company's "Rules of Procedures for Shareholders' Meetings" 11. Passed the amendments to the Company's "Procedures for Acquisition or Disposal of Assets" 12. Passed the amendments to partial provisions of the Company's "Procedures for Loaning of Funds to Others" 13. Passed the amendments to partial provisions of the Company's "Operating Procedures for Endorsements and Guarantees" 14. Passed the proposal for convening the 2019 annual shareholders' meeting 15. Passed the resolution of the shareholders' proposal right at the 2019 annual shareholders' meeting 16. Passed the resolution of the CPA competence and independence evaluation report 17. Passed the proposal for replacement of CPAs for financial statements audit

	18. Passed the Company's proposal for increasing the investment in the Japanese subsidiary 19. Passed the Company's proposal for increasing the investment in the European subsidiary 20. Passed the Company's proposal for increasing the capital in the subsidiary UOC USA, Inc. indirectly by US$4 million
2019.05.02	1. Passed the proposal for the cancellation of new restricted employee shares redeemed by the Company
2019.06.19	1. Passed the issuance date of cash dividends from 2018 earnings and capital surplus on July 22, 2019 2. Passed the proposal for distribution of 2018 remuneration to employees, Directors, and Supervisors 3. Passed the proposal for capital increase by issuance of preferred stocks 4. Passed the 3rd issuance of domestic unsecured convertible bonds 5. Passed of the establishment of "Standard Procedures for Disposal of Directors' Requirements"
2019.08.06	1. Passed the proposal for share subscription of managerial officers in the 2019 cash capital increase 2. Passed the proposal for the cancellation of new restricted employee shares redeemed by the Company
2019.11.07	1. Passed the proposal for the cancellation of new restricted employee shares redeemed by the Company
2019.12.26	1. Passed the 202 auditing plan 2. Passed the Company's proposal for loaning of funds between the companies in which the Group has invested 3. Passed Company's proposal for endorsements and guarantees offered to the Group's sub-subsidiaries 4. Passed the Company's proposal for increasing the investment in the Japanese subsidiary 5. Passed the Company's proposal for increasing the investment in UOC USA, Inc.
2020.03.19	1. Passed the distribution of 2019 remuneration to employees, Directors, and Supervisors 2. Passed the Company's 2019 financial statements and business report 3. Passed the Statement of Internal Control System 4. Passed the Company's proposal for 2019 earnings distribution 5. Passed the proposal for the distribution of cash dividends from capital surplus 6. Passed the amendments to partial provisions of the Company's Articles of Association 7. Passed the amendments to the Company's "Rules of Procedures for Shareholders' Meetings" 8. Passed the amendments to the Company's "Procedures for Acquisition or Disposal of Assets" 9. Passed the amendments to partial provisions of the Company's "Procedures for Loaning of Funds to Others" 10. Passed the amendments to partial provisions of the Company's "Operating Procedures for Endorsements and Guarantees" 11. Passed the amendments to the Company's "Guidelines of Board of Directors' Meeting" 12. Passed the amendments to the Company's "Articles of Remuneration Committee" 13. Passed the formulation of the Company's "Audit Committee Charter" 14. Passed the Company's proposal for the reelection of directors at the shareholders' meeting 15. Passed the proposal to release newly appointed Directors from the non-compete clause to be resolved at the shareholders' meeting 16. Passed the shareholders' proposal right to be resolved at the 2020 annual shareholders' meeting 17. Passed the proposal for convening the 2020 annual shareholders' meeting 18. Passed the CPA competence and independence evaluation report 19. Passed the Company's proposal for cancellation of the 1st repurchase of the Company's shares by law
2020.04.28	1. Passed the nomination of Directors 2. Passed the review of qualifications for Independent Directors 3. Passed the amendments to partial provisions of the Company's Articles of Association 4. Passed the amendments to the regulations governing the issuance and transfer of the Company's preferred stock A 5. Passed the acquisition of a 1.389% equity interest in United Orthopedic Japan Inc.

(XII) Major Contents of Any Dissenting Opinions on Record or Stated in a Written Statement Made by Directors or Supervisors regarding Material Resolutions Passed in the Board of Directors' Meetings for the Most Recent Year up to the Publication Date of the Annual Report: None.

(XIII) A Summary of Resignations and Dismissals of the Company's C-suite Executives for the Most Recent Year up to the Publication Date of the Annual Report: None.

March 31, 2020

TITLE	NAME	DATE OF ASSUMPTION OF DUTY	DATE OF DISMISSAL	REASON FOR RESIGNATION OR DISMISSAL
None				

Note: The term "c-suite executives" refers to the Chairman, General Manager, Chief Accounting Officer, Chief Financial Officer, Chief Internal Auditor, Chief Corporate Governance Officer, Chief Research and Development Officer, etc.

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 of CPA Professional Fee Brackets

Accounting Firm	Name of CPA		Auditing Period	Remark
Ernst & Young	Ma, Chun-Ting	Huang, Chien-Tse	20190101-20191231	None

Note: Where the Company replaces the CPAs or accounting firm, the auditing periods of the former and succeeding CPAs or accounting firm shall be listed separately. The reason for the replacement shall be provided in the "Remark" section accordingly.

Unit: NT$1,000

Fee Bracket \ Category of Fees		Audit Fees	Non-audit Fees	Total
1	Less than NT$2,000,000			
2	NT$2,000,000 (included)~NT$4,000,000	3,638	0	3,638
3	NT$4,000,000 (included)~NT$6,000,000			
4	NT$6,000,000 (included)~NT$8,000,000			
5	NT$8,000,000 (included)~NT$10,000,000			
6	More than NT$10,000,000 (included)			

1. When the non-audit fees paid to the CPAs, their accounting 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 CPA	Audit Fees	Non-audit Fees					Auditing Period	Remark
			System Design	Business Registration	Human Resources	Others (Note2)	Subtotal		
Ernst & Young	Ma, Chun-Ting Huang, Chien-Tse	3,638	0	0	0	0	0	20190101 20191231	None

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

Note 2: Please list fees for the non-audit services separately and provide explanation in the "Remark" 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 are less than those of the fiscal year before that, the decreased amount and reason thereof shall be disclosed: None.

3. When the audit fees decrease by 15% or more than those in the previous fiscal year, the Company shall disclose the decreased amount, ratio, and reason: None.

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

VI. Information on Replacement of CPAs

(I) Information on the Former CPAs

<table>
<tr><td>Date of Replacement</td><td colspan="4">March 18, 2019</td></tr>
<tr><td>Reason for Replacement and Explanation</td><td colspan="4">Due to the internal CPAs adjustment at Ernst & Young, the Board of Directors resolved to entrust the CPA Ma, Chun-Ting and CPA Huang, Chien-Tse at Ernst & Young to handle the audit of financial statements starting from the first quarter of 2019.</td></tr>
<tr><td rowspan="3">Statement on Termination by the Authorizing Party or Rejection by CPAs</td><td colspan="2">Party
Situation</td><td>CPAs</td><td>Authorizing Party</td></tr>
<tr><td colspan="2">Voluntarily Terminated the Authorization</td><td>✓</td><td></td></tr>
<tr><td colspan="2">Rejected the (Continuing) Authorization</td><td></td><td></td></tr>
<tr><td>Opinions and Reasons Other than Unqualified Opinions Issued for the Most Recent Two Years</td><td colspan="4">Unqualified opinions were issued in both 2018 and 2019.</td></tr>
<tr><td rowspan="6">Different Opinions from the Issuer</td><td rowspan="4">Yes</td><td colspan="2"></td><td>Accounting principles or practices</td></tr>
<tr><td colspan="2"></td><td>Disclosure of financial report</td></tr>
<tr><td colspan="2"></td><td>Scope or procedure of auditing</td></tr>
<tr><td colspan="2"></td><td>Others</td></tr>
<tr><td>None</td><td colspan="3">✓</td></tr>
<tr><td colspan="4">Explanation: N/A</td></tr>
<tr><td>Other Disclosing Items (under Items 1-4 to 1-7, Subparagraph 6, Article 10 of the Regulations Governing Information to be Published in Annual Reports of Public Companies (the "Regulations"))</td><td colspan="4">None</td></tr>
</table>

(II) Information on the Succeeding CPA

Name of Accounting Firm	Ernst & Young
Name of CPA	CPA Ma, Chun-Ting and CPA Huang, Chien-Tse
Date of Appointment	March 18, 2019
Consultations before the Appointment and Consultation Results in Regard to Accounting Methods or Accounting Principles for Particular Transactions and Possible Opinions Issued on the Financial Statements	None
The Succeeding CPAs' Written Opinions on the Former CPAs' Different Opinions	None

(III) Former CPAs' Reply to Items 1 and 2-3, Subparagraph 6, Article 10 of the Regulations: N/A.

VII. The Company's Chairman, General Manager, or Any Managerial Officer in Charge of Finance or Accounting Matters Having Held a Position at Its CPAs' Accounting Firm or at an Affiliated Company in the Most Recent Year: None.

VIII. Transfer of Equity Interests and/or Pledge of or Change in Equity Interests by Directors, Supervisors, Managerial Officers, and/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: Where the counterparty in any such transfer or pledge of equity interests is a related party, the Company shall disclose the counterparty's name, relationship between that party and the Company as well as its Directors, Supervisors, managerial officers, and shareholders holding more than 10% of the Company's shares, and the number of shares transferred or pledged.

(I) Change in the Equities Held by the Directors, Supervisors, Managerial Officers, and Major Shareholders

Date: April 18, 2020 (book closure date); Unit: Share

Title	Name	2019				As of April 17, 2020				Remark
		Common Stock		Preferred Stock		Common Stock		Preferred Stock		
		Addition (Reduction) of Shares Held	Addition (Reduction) of Shares Pledged	Addition (Reduction) of Shares Held	Addition (Reduction) of Shares Pledged	Addition (Reduction) of Shares Held	Addition (Reduction) of Shares Pledged	Addition (Reduction) of Shares Held	Addition (Reduction) of Shares Pledged	
Chairman	Lin, Yan-Shen	187,000	1,200,000	131,000	0	0	0	(20,000)	0	
Director	Lin, Chun-Sheng	0	0	90,000	0	0	0	0	0	
Director	Hau, Hai-Yen	0	0	65,000	0	0	0	0	0	
Director	Ng Chor Wah Patrick	4,000	0	130,286	0	0	0	0	0	
Director	Chi-Yi Investment Co. Ltd.	0	0	62,051	0	0	0	0	0	
Independent Director	Wang, Yueh-Cheng	0	0	0	0	0	0	0	0	
Independent Director	Lee, Chun-Hsien	0	0	0	0	0	0	0	0	
Supervisor	Wong, Chi-Yin	0	0	0	0	0	0	0	0	
Supervisor	Wang, Ching-Hsiang	0	0	0	0	0	0	0	0	
Supervisor	Chen, Li-Ju	0	0	0	0	0	0	0	0	
Deputy General Manager	Liau, Jiann-Jong	0	0	14,201	0	0	0	0	0	
Deputy General Manager	Peng, Yu-Hsin	(40,000)	0	0	0	9,000	0	0	0	
Director of Operations Center	Chou, Ching-Long	0	0	4,551	0	0	0	0	0	
Director of Research and Development Center	Ho, Fang-Yuan	(4,000)	0	0	0	0	0	0	0	
Director of Department of Finance and Accounting	Deng, Yuan-Chang	0	0	0	0	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) Transfer of Equity Interests: The counterparty in the transfer of equity interests is also a related party in the most recent year and as of April 18, 2020: None.

(III) Pledge of Equity Interests: The counterparty in the pledge of equity interests is also a related party in the most recent year and as of April 18, 2020: None.

IX. Information on the Top 10 Shareholders of the Company who Are Identified as a Related Party, Spouse, or Relative within the Second Degree of Kinship:

Name (Note 1)	Shares Held in Person		Shares Held by Spouse and/or Minor Children		Shares Held in Others' Names		Top 10 Shareholders of the Company who Are Identified as a Related Party, Spouse, or Relative within the Second Degree of Kinship under No. 6 of the Statements of Auditing Standards (Note 3)		Remark
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Title (or Name)	Relationship	
Lin, Yan-Shen	2,512,000	3.12%	510,000	0.63%	0	0%	Lin, Chun-Sheng	Brother	
2nd-tier New Labor Pension Fund	2,484,243	3.09%	0	0%	0	0%	None	None	
Labor Insurance Fund	2,483,824	3.09%	0	0%	0	0%	None	None	
Lin, Chun-Sheng	1,905,743	2.37%	15,000	0.02%	0	0%	Lin, Yan-Shen	Brother	
National Pension Insurance Fund	1,790,283	2.23%	0	0%	0	0%	None	None	
E. Sun Bank as Custodian of the Investor Account of Ng Chor Wah Patrick	1,401,139	1.74%	0	0%	0	0%	None	None	
Lin, Te-Chien	960,461	1.19%	0	0%	0	0%	None	None	
Li, Chen-He	959,943	1.19%	0	0%	0	0%	None	None	
Standard Chartered as Custodian of LGT Bank (Singapore) Ltd.	937,461	1.17%	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 Total Number of Shares and Equity Interests Held in a Single Enterprise by the Company, Its Directors, Supervisors, or Managerial Officers, and/or Any Companies Directly or Indirectly Controlled by the Company

December 31, 2019
Unit: Share

Re-investments in Other Companies (Note 1)	The Company's Investments		Investments of Directors, Supervisors, Managerial Officers, and Directly or Indirectly Controlled Businesses		Combined Investments	
	Number of Shares	Shareholding Percentage (%)	Number of Shares	Shareholding Percentage (%)	Number of Shares	Shareholding Percentage (%)
UOC America Holding Corporation	11,500 (Note 2)	100	0	0	11,500	100
UOC USA, INC.	0	0	2,300 (Note 3)	100	2,300	100
UOC Europe Holding SA	13,500 (Note 4)	96			13,500	96
United Orthopedic Corporation (Suisse) SA			1,550 (Note 4)	100	1,550	100
United Orthopedic Corporation (France)			8,782 (Note 5)	100	8,782	100
United Orthopedic Corporation (Belgium)			500 (Note 5)	100	500	100
United Biomech Japan	3,695 (Note 6)	65			3,695	65
A-SPINE Asia Co., Ltd.	10,089,640 (Note 7)	75			10,089,640	75
Boiling Medical Co., Ltd.			480,000 (Note 8)	100	480,000	100

Note 1: The investments were made by the Company under the equity method.
Note 2: The face value of each share is USD 1,000.
Note 3: The face value of each share is US$5,000.
Note 4: The face value of each share is CHF1,000.
Note 5: The face value of each share is EUR1,000.
Note 6: The face value of each share is JPY50,000.
Note 7: The face value of each share is NT$10, with a subscription price of NT$60 per share.
Note 8: The face value of each share is NT$10.

Chapter 4 Funding Status

I. Capital and Shares

(I) Source of Capital

Month/Year	Par Value	Authorized Capital		Paid-in Capital		Remark		
		Number of Shares	Amount	Number of Shares	Amount	Sources of Capital	Capital Increased by Assets Other than Cash	Others
1993.02	10	11,000,000	110,000,000	2,750,000	27,500,000	Founding capital 25,000,000	Technology stocks 2,500,000	--
1994.08	10	11,225,000	112,250,000	11,225,000	112,250,000	Capital increase 77,250,000	Technology 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 increase 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 increase 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 increase 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 increase 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 increase 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 increase 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	Capital increase through private placement 38,000,000	None	--
2009.06	20.60	60,000,000	600,000,000	46,362,500	463,625,000	Capital increase through private placement 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 increase 70,000,000	None	FSC Official Letter No. 1010057730
2014.12	40.25	60,000,000	600,000,000	55,976,119	559,761,190	Unsecured convertible bonds 26,136,190	None	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 increase 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 increase 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	FSC Official Letter No. 1070323957
2019.5	-	100,000,000	1,000,000,000	80,432,847	804,328,470	Cancellation of new restricted employee shares (180,000)	None	FSC Official Letter No. 1070323957
2019.8	-	150,000,000	1,500,000,000	80,426,847	804,268,470	Cancellation of new restricted employee shares (60,000)	None	FSC Official Letter No. 1070323957
2019.11	52	150,000,000	1,500,000,000	90,426,847	904,268,470	Capital increase Preferred stocks A 100,000,000	None	FSC Official Letter No. 1080325924
2019.11	-	150,000,000	1,500,000,000	90,420,847	904,208,470	Cancellation of new restricted employee shares (60,000)	None	FSC Official Letter No. 1070323957

Type of Stock	Authorized Capital			Remark
	Outstanding Shares (Note)	Unissued Shares	Total	
Common Stock	80,420,847	59,579,153	150,000,000	TPEx listed stocks
Preferred Stock	10,000,000			

Note: 486,000 shares of common stocks are treasury stocks repurchased by the Company.

Information on Shelf Registration: N/A.

(II) Shareholder Structure

1. Common stocks

Status of Shareholders	Government Agencies	Financial Institutions	Other Judicial Persons	Foreign Institutions and Foreign Persons	Natural Persons	Total
Number of Shareholders	0	0	106	31	19,735	19,872
Number of Shares Held	0	0	11,664,705	4,393,895	63,876,247	79,934,847
Shareholding Percentage (%)	0.00%	0.00%	14.59%	5.50%	79.91%	100.00%

2. Preferred stocks

Status of Shareholders	Government Agencies	Financial Institutions	Other Judicial Persons	Foreign Institutions and Foreign Persons	Natural Persons	Total
Number of Shareholders	0	0	21	2	1,666	1,689
Number of Shares Held	0	0	2,198,810	130,379	7,670,811	10,000,000
Shareholding Percentage (%)	0.00%	0.00%	21.99%	1.30%	84.63%	100.00%

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

1. Common stocks

Record date: April 18, 2019

Class of Shareholding (Unit: Share)	Number of Shareholders	Number of Shares Held	Shareholding Percentage (%)
1-999	11,881	386,209	0.50%
1,000-5,000	6,100	12,071,690	15.10%
5,001-10,000	911	6,858,225	8.58%
10,001-15,000	331	4,110,985	5.14%
15,001-20,000	163	2,869,222	3.59%
20,001-30,000	161	3,944,116	4.93%
30,001-40,000	79	2,722,795	3.41%
40,001-50,000	53	2,413,500	3.02%
50,001-100,000	96	6,707,810	8.39%
100,001-200,000	46	6,310,000	7.89%
200,001-400,000	28	7,683,264	9.61%
400,001-600,000	7	3,495,313	4.37%
600,001-800,000	6	4,121,628	5.16%
800,001-1,000,000	4	3,662,858	4.58%
1,000,001 or over	6	12,577,232	15.73%
Total	19,872	79,934,847	100.00%

2. Preferred stocks

Record date: April 18, 2019

Class of Shareholding (Unit: Share)	Number of Shareholders	Number of Shares Held	Shareholding Percentage (%)
1-999	515	109,218	1.09%
1,000-5,000	910	1,482,617	14.83%
5,001-10,000	112	899,145	8.99%
10,001-15,000	38	512,035	5.12%
15,001-20,000	28	516,000	5.16%
20,001-30,000	27	678,682	6.79%
30,001-40,000	15	544,342	5.44%
40,001-50,000	10	467,119	4.67%
50,001-100,000	16	1,145,051	11.45%
100,001-200,000	14	1,866,791	18.67%
200,001-400,000	2	623,000	6.23%
400,001-600,000	2	1,156,000	11.56%
600,001-800,000	0	0	0.00%
800,001-1,000,000	0	0	0.00%
1,000,001 or over	0	0	0.00%
Total	1,689	10,000,000	100.00%

(IV) List of Major Shareholders: List all shareholders with a stake of 5% or greater, and if those are fewer than 10 shareholders, also list all shareholders who rank in the top 10 in shareholding percentage, and specify the number of shares and stake held by each shareholder on the list.

Shareholder's Name	Number of Shares Held	Shareholding Percentage (%)
Lin, Yan-Shen	2,512,000	3.12%
2nd-tier New Labor Pension Fund	2,484,243	3.09%
Labor Insurance Fund	2,483,824	3.09%
Lin, Chun-Sheng	1,905,743	2.37%
National Pension Insurance Fund	1,790,283	2.23%
E. Sun Bank as Custodian of the Investor Account of Ng Chor Wah Patrick	1,401,139	1.74%
Lin, Te-Chien	960,461	1.19%
Li, Chen-He	959,943	1.19%
Standard Chartered as Custodian of LGT Bank (Singapore) Ltd.	937,461	1.17%
Wong, Chi-Yin	804,993	1.00%

(V) Market Price, Net Worth, Earnings, and Dividends per Share in the Most Recent Two Years

Item		Year	2018	2019	As of March 31 of the Current Year (Note 8)
Market Price per Share (Note1)	Highest		72.90	53.50	44.60
	Lowest		35.60	43.30	25.50
	Average		60.05	47.74	33.71
Net Worth per Share (Note 2)	Before distribution		28.34	36.81	36.58
	After distribution		26.31	To be resolved at the shareholders' meeting	--
Earnings per Share	Weighted average shares		79,408,496	79,700,847	79,680,935
	Earnings per share (Note 3)		1.61	1.05	-0.17
Dividends per Share	Cash dividends		2.00044757	To be resolved at the shareholders' meeting	--
	Stock dividends	Dividends from retained earnings	0	To be resolved at the shareholders' meeting	--
		Distribution from capital surplus	0	To be resolved at the shareholders' meeting	--
	Accumulated undistributed dividends (note 4)		0	0	--
Return on Investment	Price-to-earnings ratio (Note 5)		37.30	45.47	--
	Price-to-dividends ratio (Note 6)		30.02	To be resolved at the shareholders' meeting	--
	Cash dividend yield (Note 7)		3.33%	To be resolved at the shareholders' meeting	--

* If shares are distributed in connection with capitalization of earnings or capital surplus, please disclose 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 shall 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-to-earnings ratio = Average market price / Earnings per share.

Note 6: Price-to-dividends ratio = Average market price / Cash dividends per share.

Note 7: Cash dividend yield = 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 (reviewed) by the CPAs as of the most recent quarter up to the publication date of the Annual Report. The remaining fields shall be filled with the information of the year as of the most recent year up to the publication date of the Annual Report.

(VI) Dividend Policy and Implementation Status

(1) Dividend policy and implementation status

In case the Company makes a profit in the current year (profit refers to income before tax and before distribution of remuneration to employees, Directors, and Supervisor), 12% shall be allocated as the employee remuneration and no more than 3% as remuneration to 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 remuneration and remuneration to 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 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 earnings, 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) Distribution of dividends proposed at the shareholders' meeting: For the distribution of earnings for 2019, NT$4,808,219 of stock dividends is proposed to be distributed first at NT$0.48082190 per preferred stock A; NT$0.27462619 per share is proposed to be distributed as cash dividends, along with NT$0.52537381 per share from capital surplus. The proposal was passed by the Board of Directors on March 19, 2020 and to be resolved at the shareholders' meeting on June 16, 2020 in accordance with relevant regulations.

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

(VII) Impact on the Company's Operating Performance and Earnings per Share of the Distribution of Stock Dividends Proposed at the Shareholders' Meeting: N/A.

(VIII) Compensation of Employees, Directors and Supervisors

(1) Information on compensation of employees, Directors and Supervisors under the Articles of Association

Article 20 of the Articles of Association: In case the Company makes a profit in the current year (profit refers to income before tax and before distribution of remuneration to employees, Directors, and Supervisor), 12% shall be allocated as the employee remuneration and no more than 3% as remuneration to 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 remuneration and remuneration to Directors and Supervisors in cash by a Board resolution and reported to the shareholders' meeting.

(2) The basis for estimating the amount of compensation of employees, Directors, and Supervisors, for calculating the number of shares to be distributed as employee remuneration, 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 compensation of employees, Directors, and Supervisors: In accordance with Article 20 of the Articles of Association, it is based on the profit made in 2019 (profit refers to income before tax and before distribution of remuneration to employees, Directors, and Supervisor).

The basis for calculating the number of shares to be distributed as employee remuneration, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period: It is recognized as profit or loss in 2020.

Discrepancy between the Distributed Compensation of Employees, Directors and Supervisors and the Recognized Compensation for 2019, Reasons Thereof, and Treatment

Unit: NTD

	Recognized Compensation	Distributed Compensation	Discrepancy	Reason and Treatment
Employee Remuneration	12,367,173	12,367,173	0	None
Remuneration to Directors and Supervisors	3,091,793	3,091,793	0	
Total	15,458,966	15,458,966	0	

Note: Employee remuneration and remuneration to Directors and Supervisors are distributed in cash.

(3) Distribution of compensation approved by the Board of Directors

1. Distribution of employee remuneration and remunerations to Directors and Supervisors through cash or stock: The Board of Directors resolved to distribute in cash NT$12,367,000 as employees' bonuses, and NT$3,091,000 as remunerations to Directors and Supervisors from the earnings of 2019.
2. The amount of any employee remuneration distributed in stocks, and the size of that amount as a percentage of the sum of the net income after tax stated in the parent company only financial statements or individual financial reports for the current period and total employee remuneration: No employee remuneration was distributed in stocks for 2019.

(4) Actual distribution of compensation of employees, Directors, and Supervisors for the previous fiscal year (including the number of shares, monetary amount, and stock price), and, if there is any discrepancy between the actual distribution and the recognized compensation of employees, Directors, and Supervisors, additionally the discrepancy, reason thereof, and treatment:

There was no discrepancy between the actual distribution and the recognized compensation of employees, Directors, and Supervisors for the previous year (2018).

Unit: NTD

Distribution	Distribution Resolved at the Shareholders' Meeting and by the Board of Directors	Actual Distribution	Discrepancy
Employee Remuneration	17,024,742	17,024,742	0
Remuneration to Directors and Supervisors	4,256,186	4,256,186	0
Total	21,280,928	21,280,928	0

(IX) Share Repurchases

(1) Repurchases already completed: None.

(2) Any repurchase still in progress:

As of book closure date: April 18, 2020

Number of Repurchase	First time (period)
Purpose of Repurchase	Shares are repurchased and cancelled to maintain the Company's credit and stockholders' equity.
Type of Stock Repurchased	The Company's common stock
Upper Limit of Amount Repurchased	NT$220,000,000
Expected Period of Repurchase	March 20, 2020~May 19, 2020
Expected Number of Shares to Be Repurchased	4,000 thousand shares
Price Range of Shares to Be Repurchased	NT$20 to NT$55 per share (repurchase may continue if the Company's stock price is below the lower limit of this range.)
Type and Amount of Shares Repurchased	486 thousand shares
Amount of Shares Repurchased	NT$14,153,000
Ratio of Quantity Repurchased to Quantity to Be Repurchased (%)	12.15%

II. Issuance of Corporate Bonds

(I) Issuance of Corporate Bonds

The Company's applications for the 2nd and 3rd issuance of domestic unsecured convertible bonds were approved in the Financial Supervisory Commission's Notices No. 10600254971 and No. 10803259241 dated July 18, 2017 and August 26, 2019 respectively and became effective on the same dates. The total amounts issued were NT$400 million and NT$500 million respectively. Trading began on the Taipei Exchange on August 11, 2017 and September 10, 2019 respectively based on the Notices No. 10600214142 and No. 10800104051 issued by the Taipei Exchange on August 8, 2017 and September 6, 2019.

<table>
<tr><th colspan="2">Type of Corporate Bonds</th><th>2nd issuance of domestic unsecured convertible bonds</th><th>3rd issuance of domestic unsecured convertible bonds</th></tr>
<tr><td colspan="2">Issue Date</td><td>August 11, 2017</td><td>September 10, 2019</td></tr>
<tr><td colspan="2">Face Value</td><td>NT$100,000</td><td>NT$100,000</td></tr>
<tr><td colspan="2">Issuance and Trading Place</td><td>R.O.C.</td><td>R.O.C.</td></tr>
<tr><td colspan="2">Issue Price</td><td>100% of face value</td><td>100.5% of face value</td></tr>
<tr><td colspan="2">Total Amount</td><td>NT$400,000,000</td><td>NT$500,000,000</td></tr>
<tr><td colspan="2">Interest Rate</td><td>Coupon rate 0%</td><td>Coupon rate 0%</td></tr>
<tr><td colspan="2">Term</td><td>3 years, maturity date: August 11, 2020</td><td>5 years, maturity date: September 10, 2024</td></tr>
<tr><td colspan="2">Guarantee agency</td><td>None</td><td>None</td></tr>
<tr><td colspan="2">Consignee</td><td>Taipei Fubon Commercial Bank Co., Ltd.</td><td>KGIBank Co., Ltd.</td></tr>
<tr><td colspan="2">Underwriter</td><td>Fubon Securities Co., Ltd.</td><td>KGI Securities Co., Ltd.</td></tr>
<tr><td colspan="2">Certified Lawyer</td><td>Chiu, Ya-Wen, Attorney at law</td><td>Chiu, Ya-Wen, Attorney at law</td></tr>
<tr><td colspan="2">CPA</td><td>CPAs Chang, Chih-Ming and Huang, Chien-Tse, Ernst & Young</td><td>CPAs Ma, Chun-Ting and Huang, Chien-Tse, Ernst & Young</td></tr>
<tr><td colspan="2">Repayment Method</td><td>Effective period: 3 years
The bonds can be converted into the Company's common stocks in accordance with the conversion clauses in Article 10 of the Regulations Governing the 2nd Issuance and Conversion of Domestic Unsecured Convertible Bonds (the Regulations) 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><td>Effective period: 5 years
The bonds can be converted into the Company's common stocks in accordance with the conversion clauses in Article 10 of the Regulations Governing the 3rd Issuance and Conversion of Domestic Unsecured Convertible Bonds (the Regulations), redeemed in advance in accordance with Article 18 of the Regulations, sold back in accordance with Article 19 of the Regulations, or repurchased by the Company for cancellation. The holders shall be paid in cash at the nominal value of the bonds in one payment on the mature date.</td></tr>
<tr><td colspan="2">Outstanding Principal</td><td>NT$400,000,000</td><td>NT$500,000,000</td></tr>
<tr><td colspan="2">Terms of Redemption or Advance Repayment</td><td>See the Regulations Governing the 2nd Issuance and Conversion of Domestic Unsecured Convertible Bonds</td><td>See the Regulations Governing the 3rd Issuance and Conversion of Domestic Unsecured Convertible Bonds</td></tr>
<tr><td colspan="2">Restrictive Clause</td><td>None</td><td>None</td></tr>
<tr><td colspan="2">Name of Credit Rating Agency, Rating Date, and Rating Results</td><td>None</td><td>None</td></tr>
<tr><td rowspan="2">Other Rights attached</td><td>Amount that has been converted (exchange or subscription) into common stocks, overseas depository receipts, or other marketable securities as of the publication date of the Annual Report</td><td>0</td><td>0</td></tr>
<tr><td>Issuance and conversion (exchange or subscription) regulations</td><td>See the Regulations Governing the 2nd Issuance and Conversion of Domestic Unsecured Convertible Bonds</td><td>See the Regulations Governing the 3rd Issuance and Conversion of Domestic Unsecured Convertible Bonds</td></tr>
<tr><td colspan="2">Issuance and Conversion (Exchange or Subscription) Regulations, Issuing Condition Dilution, and Impact on Existing Shareholders' Equity</td><td>The total amount of convertible 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 bonds is 3 three years and each creditor's conversion request timing is different. Therefore, it should not have any material impact on the existing shareholders' equity.
The coupon rate of the bonds is 0% and its conversion price is issued at a premium. Therefore, there should no negative impact on the shareholders' equity.</td><td>The total amount of convertible bonds that have been issued this time is NT$500,000,000. The impact on earnings per share will be delayed because the duration of the bonds is 5 three years and each creditor's conversion request timing is different. Therefore, it should not have any material impact on the existing shareholders' equity.
The coupon rate of the bonds is 0% and its conversion price is issued at a premium. Therefore, there should no negative impact on the shareholders' equity.</td></tr>
<tr><td colspan="2">Transfer Agent</td><td>N/A</td><td>N/A</td></tr>
</table>

(II) Convertible Bonds

Type of Corporate Bonds (Note 1)		2nd issuance of domestic unsecured convertible bonds		3rd issuance of domestic unsecured convertible bonds	
Item \ Year		2019	As of March 31, 2020 (Note 4)	2019	As of March 31, 2020 (Note 4)
Market Value for Conversion of Bonds (Note 2)	Highest	103.50	100.50	105.15	100.50
	Lowest	98.60	100.20	100.00	95.00
	Average	100.89	100.34	103.85	98.72
Conversion Price		70.30	70.30	51.50	51.50
Issuance Date and Conversion Price on Issuance		August 11, 2017 NT$77.30	August 11, 2017 NT$77.30	August 11, 2019 NT$51.50	August 11, 2019 NT$51.50
Conversion Method (Note 3)		Issuance of new shares	Issuance of new shares	Issuance of new shares	Issuance of new shares

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: Information for the most current year up to the publication date of the Annual Report shall be filled.

III. Issuance of Preferred Stocks

Item \ Date of Issuance (Note 2)		Preferred stock A on November 29, 2019
Denomination		NT$10
Issue Price		NT$52
Number of Shares		1,000 thousand shares
Total		NT$520,000,000
Rights and Obligations	Distribution of dividends and bonuses	1. The annual percentage rate of preferred stocks is 4.5% (record date: September 17, 2019, 5-year interest rate swap (IRS) rate, 0.7162% + fixed rate, 3.7838%) and calculated at the issue price per share. The five-year IRS rate will be reset on the next business day five years after the issue date and every five years thereafter. The record date of the reset is two business days of financial institutions in Taipei prior to the reset date. The five-year IRS rate is the arithmetic mean of the offer prices of Reuter's PYTWDFIX and COSMOS3 at 11 a.m. on the record date of the reset (business day of financial institutions in Taipei). If the aforesaid offer prices are unavailable on the record date of the reset, the five-year IRS rate shall be determined by the Company based on the principle of good faith and reasonable market conditions. 2. The Company shall apply the current year's earnings, if any, to pay for taxes as stipulated by laws and regulations, offset accumulated losses of previous years, and allocate a portion as legal reserve pursuant to laws and regulations. Next, special reserve is appropriated or reversed pursuant to the Articles of Association. The remaining earnings, if any, are allocated as preferred stock dividends for the year. The Company has discretion over the distribution of preferred stock dividends. If the Company does not generate any or sufficient profits during the year for the distribution of preferred stock dividends, it may resolve not to pay out the dividends and preferred stockholders have no rights to object. The preferred stocks issued are non-cumulative; that is, the undistributed dividends or shortages in dividends distributed shall not be accumulated and paid in subsequent years when profits are generated. The preferred stock dividends are fully distributed in cash every year. After the financial statements are adopted in an annual shareholders' meeting, the Board of Directors shall set the record date for paying the preferred stock dividends of the previous year. The number of dividends issued in the year of issue and in the year of redemption is calculated based on the actual number of days of issue in the current year. Distributed dividends will be recognized in the dividend statement.
	Distribution of remaining assets	Preferred stockholders have a higher claim to the Company's residual properties than common stockholders. Different types of preferred stocks issued by the Company grant holders the same rights to claims, and preferred stockholders stay subordinate to general creditors. The amount preferred stockholders are entitled to is capped at the product of number of outstanding preferred stocks at the time of distribution and issuance price.
	Execution of voting rights	Preferred stockholders have neither voting nor election rights. However, they may be elected as Directors or Supervisors. They have voting rights in preferred stockholders' meetings or with respect to agendas associated with the rights and obligations of preferred stockholders in shareholders' meetings.

	Others		1. The preferred stocks shall not be converted within one year from the date of issue (October 18, 2019). From the day following the expiration of one year (October 19, 2020), the holders may apply for the conversion of part or all of their preferred stocks to common stocks (conversion ratio: 1:1) in the conversion period. The smallest unit of conversion is one share. After conversion of the preferred stocks into common stocks, their rights and obligations are the same with the latter. The payment of the annual dividends for the convertible preferred stocks shall be calculated based on the actual issuing days in proportion to the days of that total year. Should any shares be converted into the common stocks before the record date of distribution of dividends, the holders shall not have the right to the distribution of the dividends of preferred shares in the current year but may participate in the distribution of common stocks surplus and capital surplus. 2. For cash offering of new shares, the preferred stockholders have the same preemptive rights as the common stockholders.
Outstanding Preferred Stocks	Amount of preferred stocks redeemed or converted		NT$0
	Balance of preferred stocks not redeemed or converted		NT$520,000,000
	Redemption or conversion terms		The Company may, at any time from the next day of the five-year expiration of the issue (October 19, 2024), redeem all or part of the preferred stocks based on the original issue price by making an announcement and sending a 30-day "Notice on the Redemption of Preferred Stocks" to the preferred shareholders. Preferred stocks not yet redeemed shall continue to be subject to the rights and obligations of issuance terms prescribed above. In the year of redeeming preferred the stocks, if the Company's shareholders' meeting makes the resolution to distribute dividends, the distributable dividends up to the date of redemption shall be calculated according to the actual issuance days of the current year.
Market Price per Share	2017	Highest	N/A
		Lowest	N/A
		Average	N/A
	2018	Highest	N/A
		Lowest	N/A
		Average	N/A
	2019	Highest	53.60
		Lowest	52.60
		Average	52.99
	As of March 31, 2020 (Note 4)	Highest	53.00
		Lowest	41.00
		Average	49.46
Other Rights Attached	Amount of stock conversion or subscription as of the publication date of the Annual Report		NT$0
	Issuance and conversion or subscription regulations		See the Regulations Governing the Issuance and Conversion of Preferred Stocks A in 2019.
Impact of conditions of issuance on the rights and interests of preferred shareholders and possible dilution of shareholders' equity and impact on existing shareholders' equity			Conditions of issuance have no impact on the rights and interests of preferred shareholders. In regard to any impact on existing shareholders' equity, although the issuance of preferred stock dividends before conversion reduces the distributable earnings to common shareholders (assuming that the original shareholders has not participated in the subscription for preferred stocks), preferred stock dividends to be distributed will decrease when preferred stocks are converted into common stocks. Although the holders may convert preferred stocks into common stocks, each holder's conversion request timing is different. Therefore, it should delay the dilution of earnings per share. The Company's increase in capital by issuing preferred stocks can immediately reduce the debt ratio and enhance the Company's competitiveness, further reducing operational risks.

Note 1: The issuance of preferred stocks includes the public offering and private placement of preferred stocks in progress. The public offering of preferred stocks in the progress refers to those going into effect upon the approval at the shareholders' meeting; the private offering of preferred stocks in the progress refers to those passed by the Board of Directors.

Note 2: The number of column is adjusted depending on the actual number of issuance.

Note 3: Private placement shall be highlighted.

Note 4: Information for the current year up to the publication date of the Annual Report shall be filled in.

Note 5: For preferred stocks issued with an embedded call option, please fill in the table below.

IV. Issuance of Overseas Depository Receipts: None.

V. Issuance of Employees' Stock Option Certificates and New Restricted Employee Shares

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

(1) For the employees' stock options that are yet to be matured, the Company shall disclose their issuance and impact on shareholders' equity as of the publication date of the Annual Report. The private placement of employees' stock options shall be highlighted: None.

(2) Names of managerial officers holding employees' stock option certificates and top ten employees holding stock option certificates, and the cumulative number of such certificates exercised by said managerial officers and employees respectively as of the publication date of the Annual Report: None.

(II) The issuance of new restricted employee shares shall record the following:

(1) The Company shall disclose the new restricted employee shares that have not fully met the vested conditions as of the publication date of the Annual Report and its impact on the shareholders' equity.

Issuance of New Restricted Employee Shares

March 31, 2019

<table>
<tr><td>Type of New Restricted Employee Shares (Note 1)</td><td>2nd issuance of new restricted employee shares</td></tr>
<tr><td>Effective Date</td><td>July 3, 2018</td></tr>
<tr><td>Issue Date (Note 2)</td><td>August 7, 2018</td></tr>
<tr><td>Number of New Restricted Employee Shares Issued</td><td>750,000</td></tr>
<tr><td>Issue Price</td><td>0</td></tr>
<tr><td>New Restricted Employee Shares as a Percentage of Shares Issued</td><td>0.83%</td></tr>
<tr><td>Vesting Conditions of New Restricted Employee Shares</td><td>(I) Managerial officers that receive new restricted employee shares upon approval of the Board of Directors:
1. Employees who are still serving in the Company three years after the capital increase base date.
2. The employees' annual performance evaluation results rank in A and above.
3. The Company's annual consolidated revenue growth of 15% and after-tax net income 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 shall not be lower than 12% and the after-tax net income shall not be lower than 16%).
<table>
<tr><td colspan="2">Assessed Items</td><td>YOY Revenue</td><td>YOY Net Income 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
● If yoy >= 12%, then x1 = yoy / 15%</td><td>● If yoy < 16%, then x2 = 0
● If yoy >= 16%, then x2 = yoy / 20%</td></tr>
<tr><td>2019</td><td>● If yoy < 12%, then x3 = 0
● If yoy >= 12%, then x3 = yoy / 15%</td><td>● If yoy < 16%, then x4 = 0
● If yoy >= 16%, then x4 = yoy / 20%</td></tr>
<tr><td>2020</td><td>● If yoy < 12%, then x5 = 0
● If yoy >= 12%, then x5 = yoy / 15%</td><td>● If yoy < 16%, then x6 = 0
● If yoy >= 16%, then x6 = yoy / 20%</td></tr>
<tr><td>Vested Share Ratio (z)</td><td colspan="3">z = Σxi / 6, (i = 1-6, if z >= 100%, it is calculated as 100%)</td></tr>
</table>
Note 1: Vested share ratio is round up to the second digit.
Note 2: The vested shares are round up to the integer.</td></tr>
</table>

	(II) R&D personnel that receive new restricted employee shares upon approval of the Board of Directors: Employees who are still serving in the Company three years after the capital increase base date, and the employees' annual performance evaluation ranks A and above. The vested share ratio is: 100%.
Restriction of Rights on New Restricted Employee Shares	(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. (II) Shareholders' meeting voting rights: same with other common stocks of the Company. (III) The option and right of interest of shareholders: same with other common stocks of the Company. (IV) The right to participate, propose, speak and vote at a shareholders' meeting is delegated and executed by the guarantee institution in accordance with the contract. (V) The new restricted employee shares shall be delivered to the guarantee institution after they have been issued. The employees shall not request the new restricted employee shares to be returned for any reason before the vested conditions are met.
Custodian of New Restricted Employee Shares	Taipei Fubon Commercial Bank Co., Ltd.
Procedures for Handling Allocated or Subscribed New Shares without Meeting the Vested Conditions	If the employees violate the Regulations, labor contract or work guidelines that receive a major warning and 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 to redeem and cancel the shares unconditionally according to law. However, the stock and cash dividends received during the period will be given to the employees unconditionally.
Quantity of Redeemed or Purchased New Restricted Employee Shares	30,000 (Note 3)
Number of New Shares with Restricted Rights Lifted	0
Number of New Shares with Restricted Rights Not Yet Lifted	720,000
Proportion of New Shares with Restricted Rights Not Yet Lifted to Total Number of Issued Shares (%)	0.80%
Impact on Shareholders' Equity	A total of 720,000 new restricted employee shares were issued unconditionally. The employees must still be serving the Company three years after the capital increase base date. The current ratio of new restricted employee shares to the total number of shares issued is 0.80%, which should not have any material impact on the existing shareholders' equity.

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

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

Note 3: Employees entitled to new restricted employee shares left the Company before meeting the vested conditions. According to the Regulations, the Company redeemed a total of 30,000 new restricted employee shares issued for cancellation upon the Board's resolutions on May 2, 2019, August 6, 2019, and November 7, 2019, and has completed the change registration.

(2) Names and acquisition status of managerial officers acquiring new restricted employee shares and top ten employees in the number of new restricted employee shares acquired, cumulative to the publication date of the Annual Report:

Names and Acquisition Status of Managerial Officers Acquiring New Restricted Employee Shares and Top Ten Employees in the Number of New Restricted Employee Shares Acquired

March 31, 2019

	Title (Note 1)	Name	Number of New Restricted Employee Shares Acquired	Percentage of New Restricted Employee Shares Acquired to Total Shares Issued	Restricted Rights Lifted (Note 2)				Restricted Rights Not Yet Lifted (Note 2)			
					Number of Shares with Restricted Rights Lifted	Issue Price	Issue Amount	Percentage of Shares with Restricted Rights Lifted to Total Shares Issued	Number of Shares with Restricted Rights Not Yet Lifted	Issue Price	Issue Amount	Percentage of Shares with Restricted Rights Not Yet Lifted to Total Shares Issued
Managerial Officers	General Manager	Lin, Yan-Shen	330,000	0.36%	0	10	0	0%	330,000	10	0	0.36%
	Deputy General Manager and Director of Operations Center	Liau, Jiann-Jong										
	Deputy General Manager and Director of Operations Center	Peng, Yu-Hsin										
	Director of Research and Development Center	Ho, Fang-Yuan										
	Director of Operations Center	Chou, Chin-Lung										
	Director of Department of Finance and Accounting	Deng, Yuan-Chang										
Employee (Note 3)	Manager, Department of Finance and Accounting	Pan, Yun-Hun	168,000	0.18%	0	10	0	0%	168,000	10	0	0.18%
	Manager, Department of Information Management	Kuo, Yao-Chong										
	Manager, Department of Production Management at Hsinchu	Lin, Hsiu-Chun										
	Manager, Department of Manufacturing Development at Kaohsiung	Lin, Ching-Chi										
	Project Manager, R&D Department	Lu, Cheng-Kuang										
	Manager, Mechanical Development Department	Pao, Shou-Heng										
	Audit Manager, General Manager's Office	Liao, Wei-Chan										
	Manager, Department of Administration	Chuang, Ya-Yen										
	Manager, Department of Customer Service	Wang, Yi-Yung										
	Manager, Department of International Operations	Wang, Ching-Hsi										

Note1: The names and titles of the managerial officers and employees shall be disclosed individually (those who have left the Company or passed away shall be noted), but the stock options received or subscribed may be disclosed in a consolidated method.

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

Note 3: The top ten employees who hold the new restricted employee shares refer to employees outside managerial officers.

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

VI. Issuance of New Shares in Connection with Mergers and Acquisitions or with Acquisitions of Shares of Other Companies: None.

VII. Implementation of Capital Allocation Plans

As of the first quarter of 2020, the Company's uncompleted public offering or private placement of securities, and for such offering and placement that were completed in the most recent three years but have not yet fully yielded the planned benefits include the issuance of preferred stocks A and the 3rd issuance of domestic unsecured convertible bonds worth NT$1,020,000,000 in 2019 and the issuance of new shares and the 2nd issuance of domestic unsecured convertible bonds worth NT$800,000,000 in 2017. The plans and execution results are explained below:

● Issuance of preferred stocks A and the 3rd issuance of domestic unsecured convertible bonds in 2019

(I) Description of Plans

1. The competent authority's approval date and document number:
   FSC Letters No. 1080325924 and No. 10803259241 dated August 26, 2019.
2. Total amount of funds required for the plan: NT$1,022,500,000.
3. Sources of funds:
   (1) The 3rd issuance of domestic unsecured convertible bonds
   Issued 5,000 unsecured convertible bonds for the third time in Taiwan at 100.5% of face value, each with a face value of NT$100,000, in a period of three years. The total issue amount was NT$500,000,000, with a nominal annual percentage rate of 0%.
   (2) Issuance of preferred stocks A in 2019
   Issued 10,000 thousand shares of preferred stock for capital increase at the par value of NT$10 each. The issue price per share was set at NT$52, and the total fund raised reached NT$520,000 thousand.
4. Capital allocation plans and expected progress

Unit: NT$1,000

Plan	Expected Completion Date	Total Funds Required	Expected Progress	
			2019	
			Third Quarter	Fourth Quarter
Repayment of Bank Borrowings	4th quarter of 2019	1,018,667	500,000	518,667
Replenishment of Working Capital	4th quarter of 2019	3,833	0	3,833
Total		1,022,500	500,000	522,500

5. Changes in plans, reasons thereof, and benefits: N/A.
6. Date on which information on the plans has been entered into the reporting website designated by the FSC: August 26, 2019.
7. Expected benefits
   The capital allocation plans were mainly for repayment of bank borrowings and replenishment of working capital to reduce interest expenses and improve the Company's financial structure. If we apply the borrowing rate of 0.9350%~1.27% and the average short-term borrowing rate of 0.93%, the Company expects to save NT$2,455,000 in interest expenses in 2019 and NT$9,839,000 annually from 2020 onward. The capital allocation plans can moderately reduce the Company's financial burden and improve its financial structure and solvency.

(I) Status of Implementation

Unit: NT$1,000

Plan	Implementation Status		As of Fourth Quarter of 2019	Reason for Exceeding or Falling behind and Improvement Plan
Repayment of Bank Borrowings	Expenses	Expected	1,018,667	Completed on schedule (N/A)
		Actual	1,018,667	
	Progress	Expected	100.00%	
		Actual	100.00%	
Replenishment of Working Capital	Expenses	Expected	3,833	
		Actual	3,833	
	Progress	Expected	100.00%	
		Actual	100.00%	
Total	Expenses	Expected	1,022,500	
		Actual	1,022,500	
	Progress	Expected	100.00%	
		Actual	100.00%	

(II) Benefits

(1) Repayment of bank borrowings

Unit: NT$1,000

Quarter / Interest Expenses	Before Financing	After Financing	
	Second Quarter of 2019	Third Quarter of 2019	Fourth Quarter of 2019
Interest Expenses	4,671	5,127	4,055

Of the funds raised from the issuance of preferred stocks A and the 3rd issuance of domestic unsecured convertible bonds in 2019, NT$1,018,667,000 was used to repay the Company's bank borrowings, which was fully completed in the fourth quarter of 2019 as scheduled. According to the table above, interest expenses have been saved.

(2) Replenishment of working capital

Unit: NT$1,000; %

Item / Year		Before Financing	After Financing
		End of June 2019	End of 2019
Basic Financial Data	Current assets	1,855,262	1,707,132
	Current liabilities	1,289,716	808,161
	Total liabilities	2,239,692	1,728,711
	Operating revenue	788,082	1,576,184
	Earnings per share (NT$)	0.78	1.05
Financial Structure (%)	Debt ratio	49.33	37.95
	Ratio of long-term capital to property, plant, and equipment	275.64	369.76
Solvency (%)	Current ratio	143.85	211.24
	Quick ratio	88.93	121.62

Source: Information as of the end of 2019 was based on the parent company only financial statements audited by the CPAs; information as of the end of June 2019 was based on the parent company only financial statements not yet audited by the CPAs.

Of the funds raised from the issuance of preferred stocks A and the 3rd issuance of domestic unsecured convertible bonds in 2019, NT$3,833,000 was used to replenish the Company's working capital, which was fully completed in the fourth quarter of 2019 as scheduled. In terms of basic financial data, current assets at the end of 2019 decreased compared to those at the end of June 2019 mainly due to the increased need of working capital arising from expanded outlets. Cash and cash equivalents decreased accordingly; current liabilities and total liabilities at the end of 2019 decreased compared to those at the end of June 2019 mainly due to the repayment of short-term borrowings. As to the financial structure, at the end of 2019, the debt ratio dropped from 49.33% to 37.95%, the current ratio increased from 143.85% to 211.24%, and the quick ratio rose from 88.93% to 121.62%, showing an improved financial structure and solvency. In summary, the benefits of replenishment of working capital have started to roll in.

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 2019	(%) of Total Sales
Artificial joints	1,962,268	80.5%
Spinal products	408,409	16.8%
Other Products	61,052	2.5%
OEM products	4,971	0.2%
Total	2,436,700	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 joints: 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	Dual mobility hip system and tools
3	Non-cement fixed tibia base	4	U-Motion II EXPE Liner expansion
5	Non-cement fixed femoral end implants	6	Modular knee joint specimen
7	Shoulder joint systems and tools	8	3D printed acetabular systems and tools
9	Modular stems and tools		

(II) Industry Overview:

(1) Current Status and Future Development

According to the "Orthopaedic Industry Annual Report" published by ORTHOWORLD in 2019, the global artificial knee joint is estimated to have an output value of US$9.66 billion in 2020, and the expected compound growth rate is 3.3 ~ 3.4% from 2020 to 2023. The artificial hip joint has an output value of US$8.08 billion and the expected compound growth rate is 3.3 ~ 3.4% from 2020 to 2023. In addition, the overall price fluctuations in the end product market are minimum. In this market, which is approximately NT$530 billion and continues to grow due to the ageing 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

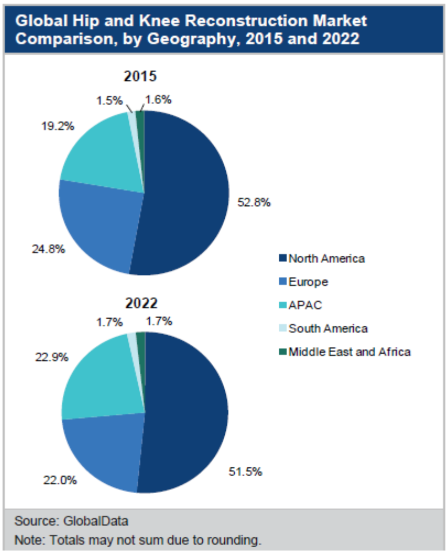
In the field of artificial joints, standardized products continue to account for the majority of revenue. Nevertheless, with their advantages over resources, international corporations continue to control the product trends and enjoy leadership. The development in recent years leans towards improvements 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



(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 (%)
2018	200,454	8.6%
2019	188,337	7.7%
As of March 31, 2020	41,386	7.9%

(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	The Machining Technology of Titanium Alloy for Orthopedic Joint Replacements
5	The Surface Treatment and hardening Technology of Stainless Surgical Instruments	6	The Diamond Shape Manufacturing Technology for Stem Broach Surface
7	The Robotic Grinding Technology for Femoral Components	8	The Precision Forging Technology of CoCrMo Alloy for Orthopedic Joint Replacements
9	The Precision Forging Technology of Titanium Alloy for Orthopedic Joint Replacements	10	The Precision Casting Technology of CoCrMo Alloy for Orthopedic Joint Replacements
11	The Sintering Technology of Porous Coating on Titanium Alloy	12	Vacuum Plasma Spraying Technology of Titanium Powder on Titanium Alloy Surface
13	The Plasma Spray Coating Technology of Titanium and Hydroxyapatite on Titanium Alloy Surface	14	Vacuum Plasma Spraying Technology of Titanium Powder on The Surface of Alloy of Cobalt, Chromium and Molybdenum
15	The Titanium Alloy Surface High-Thickness HA Plasma Spray Coating Technology	16	The Plasma Spray Coating Technology of Titanium and Hydroxyapatite on Cobalt-, Chromium- And Molybdenum-Alloy Surface

(IV) Long-Term and Short-Term Development

(1) Short-Term Development:

1. Marketing strategy

(A) In the past two years, due to the implementation of medical reforms by the central government in China, e.g. the two-invoice system and volume-based tendering system in various provinces, the market business model has also been adjusted to meet local market transformation requirements. At present, the priority is to secure the volume-based tendering in various provinces, and the Company has obtained the qualification for submitting such a tender in one participating province. In addition, both parties of the joint venture are acting proactively to push for the domestically-made products to be registered and going on the market. It is estimated that the certification of various products will be completed in the second half of 2020 and that all products will be granted the license to sell in 2021, which is believed to be beneficial to China's growth.

(B) Maintaining a presence in the Swiss and French markets through European subsidiaries and continuing to explore business opportunities in other European markets. We expect to tap into the local market in Belgium in 2020.

(C) The subsidiary in Japan has completed product registration and started marketing and sales in 2019. Besides hospital clients that the Company secured, the Company will also actively seek suitable partners to establish a presence in the bellwether market of Asia.

(D) The Company cooperates with senior sales consultants in Central and South America 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 business growth. The Company will continue to dedicate resources to this market development.

(E) The Company is currently developing the US hospital markets mainly through regular chains. New products developed to break into higher-end hospitals, such as Conformity stems and USTAR II System (Knee & Hip), the second-generation bone tumor products, have successfully passed the FDA certification in 2019. As such, in a strategic manner, the Company will cooperate with well-known doctors for an appointment opportunity in their clinical research, continue to strive for exposure in professional media, and increase brand awareness, which will improve the local sales.

(F) In addition to strengthening the competence of existing sales teams in the domestic market, improving customer mastery, ensuring service quality and strength, the Company will also actively promote high-quality self-financed products to increase unit sales prices and gradually raise domestic market share and performance.

2. Production policy and product development

(A) After phase three of the new construction of Kaohsiung plant was put into production, the production lines in Hsinchu plant and Kaohsiung plant have been adjusted for the purpose of improving production efficiency and yields, providing a stable source of goods to meet market demands and expanding production capacity. We will gradually acquire more machines 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 diversification of operational risks. Because the medical industry is susceptible to external factors, we will reduce operational risks by avoiding overwhelming a single region or a single customer for business development; The Group allocates resources pursuant to the same principle for more stable development. The Company has sales locations in major strategic marketers all over the world, e.g. the 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 joint venture arrangements and local managers and sales teams to expand local markets. The Company achieves sales targets through profit and risk sharing with the managing parties in the joint venture arrangement.
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

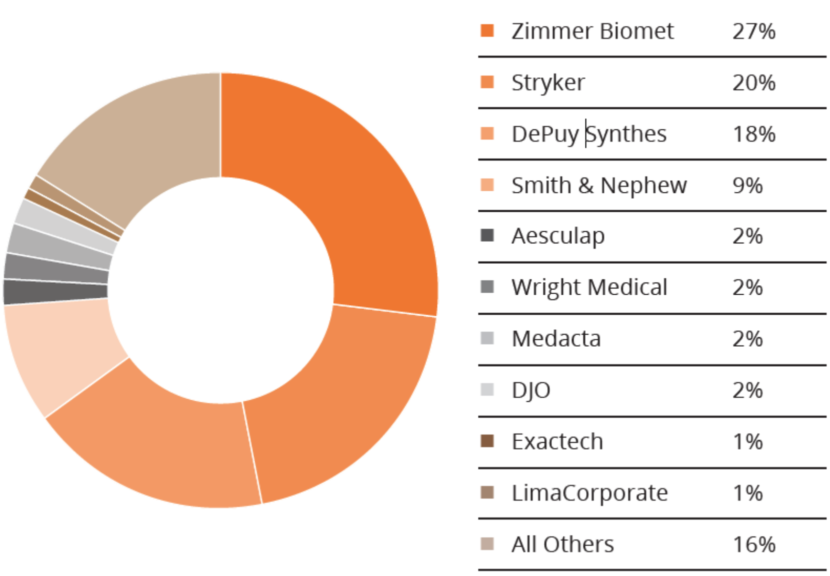
Unit: NT$1,000

Year / Area	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
Taiwan	734,392	37.2%	868,831	37.3%	967,904	39.7%
Asia	522,357	26.5%	650,072	27.9%	463,846	19.0%
America	424,144	21.5%	400,580	17.2%	432,553	17.8%
Europe	250,504	12.7%	371,629	15.9%	486,778	20.0%
Africa	11,214	0.6%	9,213	0.4%	30,605	1.2%
Australia	29,981	1.5%	31,922	1.3%	55,014	2.3%
Total	1,972,592	100.0%	2,332,247	100.0%	2,436,700	100.0%

(2) Market Share

According to "The Orthopaedic Industry Annual Report" published by the ORTHOWORLD in 2019, the total number of artificial joint prosthesis market share of the four largest manufacturers in the world was approximately 74%. The market share of the Company was approximately 0.4% to 0.5%.

Exhibit 20: Joint Replacement Market Share: Top 10 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 the 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 plants. The four major plants in the U.S. produce nearly 70% of the industrial output by value while the rest is divided among other smaller plants. 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, 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 are 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. Unfav1orable 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.

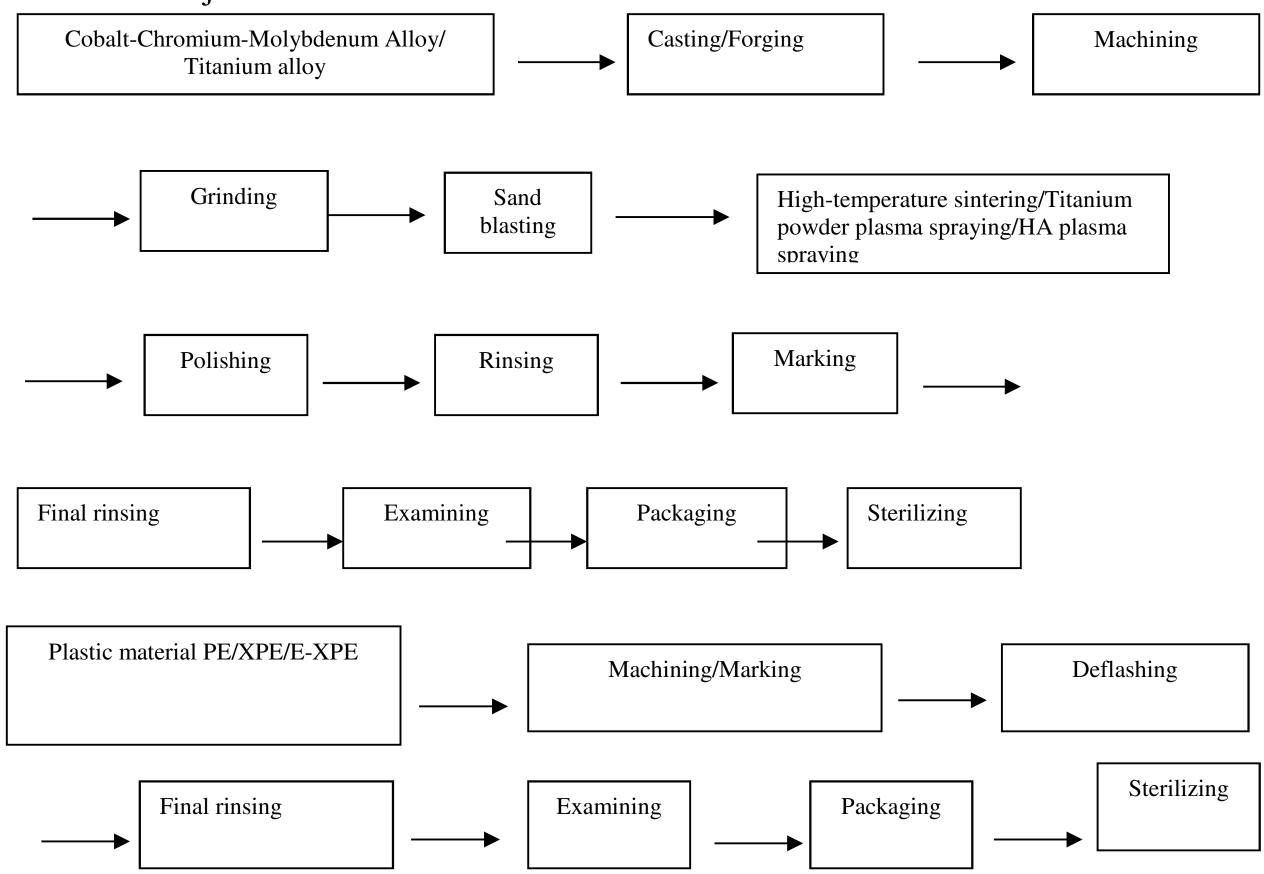
(II) Major Products, Their Main Uses and Processes

(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



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 bar: Mainly provided by President Co., Ltd., Titanium Industries Asia, Inc., Xitron Innovation Co., Ltd., and Carpenter Technology.

Foreign Procurement:

(1) Stainless steel bar: Mainly imported from France and Germany
(2) Titanium alloy bars: Mainly imported from the United States 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	Titanium Industries Asia, Inc., Acnis International	Good
Titanium alloy bar	President Co., Ltd., Titanium Industries Asia, Inc., Xitron Innovation Co., Ltd.	Good
Cobalt chrome molybdenum bar	Carpenter	Good
Plastic bar	Quadrant (renamed as Mitsubishi Chemical after M&A) 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

	2018				2019				As of March 31, 2020 (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 procurement as of the previous quarter of the current year (%)	Relation with issuer
1	CeramTec AG	106,989	18.60	None	CeramTec AG	92,020	20.38	None	CM	13,058	23.63	None
2	UMC	70,797	12.31	Affiliate company	UMC	40,133	8.89	Affiliate company	UMC	10,166	18.39	Affiliate company
3	CM	40,426	7.03	None	CM	38,387	8.50	None	EVOLUTIS	6,460	11.69	None
	Others	357,039	62.06		Others	280,936	62.23		Others	25,586	46.29	
	Net Total Procurement	575,251	100.00		Net Total Procurement	451,476	100.00		Net Total Procurement	55,270	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 two 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 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 the increase or decrease in total procurement: Mainly due to the Company's lowering of the Group's inventory level, which resulted in a relative decrease in the Group's total procurement. Therefore, the changes in the major suppliers in the most recent two years are reasonable in general.

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

Unit: NT$1,000

	2018				2019				As of March 31, 2020 (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 procurement as of the previous quarter of the current year (%)	Relation with issuer
1	UMI	416,002	17.84	Affiliate company	UMI	135,125	5.55	Affiliate company	Shinva United Orthopedic Corporation	47,072	9.00	Affiliate company
2	Linkou Chang Gung Memorial Hospital	110,546	4.74	None	Shinva United Orthopedic Corporation	130,244	5.34	Affiliate company	Linkou Chang Gung Memorial Hospital	21,085	4.03	None
3	Cirugía Alemana Insumos Médicos S.A.	51,233	2.20	None	Linkou Chang Gung Memorial Hospital	107,865	4.43	None	Sinawal Medical	16,620	3.18	None
	Others	1,754,466	75.22		Others	2,063,466	84.68		Others	438,412	83.79	
	Net Sales	2,332,247	100.00		Net Sales	2,436,700	100.00		Net Sales	523,189	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 two 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 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 the increase or decrease in total sales: The Company's revenue from all business units in 2019 increased, except for mainland China, where the government rationed the sales of the subsidiaries. Therefore, the changes in sales are reasonable in general.

(V) Production in the Last Two Years

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

Year / Production value/main product	2018			2019		
	Production capacity	Production quantity	Production value	Production capacity	Production quantity	Production value
Artificial joints	348,000pcs	320,760pcs	696,628	348,000pcs	280,760pcs	625,000
OEM products	75,618pcs	62,289pcs	22,743	112,085pcs	97,321pcs	44,790
Spinal products	492,000pcs	407,867pcs	93,843	566,000pcs	492,584pcs	111,144
Total	915,618pcs	790,916pcs	813,214	1,026,085pcs	870,665pcs	780,934

(VI) Shipments and Sales in the Last Two Years

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

Year / Sales Volume & Value / Main products	2018				2019			
	Local		Export		Local		Export	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Artificial joints	55,575pcs	563,084	215,146pcs	1,277,318	64,607pcs	660,817	199,366pcs	1,301,451
Spinal products	81,288pcs	276,583	83,931pcs	134,269	82,179pcs	270,015	106,739pcs	138,394
OEM products	838pcs	2,084	45,001pcs	30,036	88pcs	1,122	5,702pcs	3,849
Other Products	0	27,080	0	21,793	0	35,950	0	25,102
Total	137,701pcs	868,831	344,078pcs	1,463,416	146,874pcs	967,904	311,807pcs	1,468,796

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

March 31, 2020

	Year	2018	2019	As of March 31, 2020
Number of employees	Sales personnel	84	96	90
	Technical personnel	368	353	349
	Administrative personnel	113	120	123
	R&D personnel	175	183	173
	Total	740	752	735
Average age		37.2	37.8	38.1
Average years of service		5.0	5.5	5.6
Education distribution	Ph.D.	2%	1%	1%
	Masters	15%	16%	15%
	Bachelor's Degree	58%	58%	59%
	Senior High School	22%	22%	22%
	Below Senior High School	3%	3%	3%

IV. Environmental Protection Expenditure

Losses for environmental protection: Any losses suffered by the Company in the most recent fiscal year and up to the annual report publication date due to environmental pollution incidents (including any compensation paid and any violations of environmental protection laws or regulations found in environmental inspection, punishment dates, reference letter number, the articles and content of the law violated, and the punishment content), and disclosing an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken. If a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided.

The Company has not received any penalties and fines due to pollutions for the most recent year and as of the publication 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 were assigned, which in turn improves the Company's core competitive advantage. The Company's training costs amounted to NT$3.75 million in 2019.
    (2) Training system:
    Our training types are currently categorized as follows:
        1) Professional 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.

2) New recruit onboard training: The new employees are assisted in familiarizing themselves with administrative tasks and their professional fields during the probation period.
3) Functional training: Provide training for personnel whose functions would affect the requirement of the product, so that they are equipped with the necessary capability.
4) Management training: Courses that improve management skills are provided to management personnel.

(3) Implementation of educational training:
The Company has always been committed to strengthening personnel job skills 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 in 2019 is as follows:

Hours of internal training	Hours of internal training/person	Hours of external training	Hours of external training/person	Total hours/person
6,107 hours	10 hours	4,150 hours	7 hours	16 hours

3. Retirement system implementation:
The Company formulated the retirement policy in accordance with the Labor Standards Act and the Labor Pension Act. The Company allocates pension to the 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 an 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 suffered by the Company in the most recent two fiscal years and up to the annual report publication date due to labor disputes (including any violations of the Labor Standards Act found in labor inspection, the punishment dates, reference letter number, the articles and content of the law violated, and the content of the punishment), and disclosing an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken. If a reasonable estimate cannot be made, an explanation of the reasons why it cannot be made shall be provided.

There has been no material labor disputes in the most recent year up to the publication date of this Annual Report.

VI. Important Contracts

The contracting parties, major content, restrictive clauses, and the commencement dates and expiration dates of supply/distribution contracts, technical cooperation contracts, engineering/construction contracts, long-term loan contracts, and other contracts that would affect shareholders' equity, where said contracts were either still effective as of the date of publication of the Annual Report or expired in the most recent fiscal year:

Nature of contract	Contracting Parties	Term	Major contents	Restrictive clauses
Financing	Taiwan Cooperative Bank	September 18, 2013 to October 31, 2031	Loans	None
Financing	CTBC Bank	October 19, 2017 to October 19, 2022	Loans	None
Financing	Bank of Taiwan	June 19, 2018 to June 20, 2023	Loans	None
Financing	Mega International Commercial Bank - Neihu	December 7, 2017 to December 7, 2032	Loans	None
Advantages and value-added plans for the integration of niche medical materials	Taiwan Small & Medium Enterprise Counseling Foundation (Taiwan SMECF)	April 1, 2019 to December 31, 2020	Clinical performance tracking	None
South Taiwan Smart Manufacturing Industrial Clusters	Southern Taiwan Science Park (STSP)	January 01, 2019 to December 31, 2019	3D printed metal bone implant product development process	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 information for the most recent five years					As of March 31, 2020 (Note 2)
		2015	2016	2017	2018	2019	
Current assets		1,862,972	1,503,925	1,991,021	2,381,014	2,314,600	3,172,106
Property, plant and equipment		661,865	927,242	1,360,136	1,491,953	1,488,791	1,450,715
Intangible assets		15,135	38,329	434,988	471,893	500,251	506,653
Other assets		53,262	486,269	509,266	504,972	940,962	928,386
Total assets		2,593,234	2,955,765	4,295,411	4,849,832	5,244,604	6,057,860
Current liabilities	Before distribution	639,828	843,254	1,319,631	1,600,383	1,262,533	1,904,896
	After distribution	754,631	942,808	1,420,034	1,761,285	(Note 1)	N/A
Non-current liabilities		180,357	310,965	757,656	999,091	1,048,143	1,238,523
Total liabilities	Before distribution	820,185	1,154,219	2,077,287	2,599,474	2,310,676	3,143,419
	After distribution	934,988	1,253,773	2,177,690	2,760,376	(Note 1)	N/A
Equity attributable to owners of parent company		1,773,049	1,773,162	2,204,915	2,331,818	2,826,726	2,800,566
Capital		717,469	717,469	797,129	804,509	904,209	904,209
Capital reserve		912,988	915,406	1,243,611	1,280,536	1,827,683	1,827,683
Retained earnings	Before distribution	156,049	187,080	216,990	242,255	217,357	203,428
	After distribution	41,246	87,526	116,587	81,353	(Note 1)	N/A
Other equity		-13,457	-46,793	-52,815	-95,482	-122,523	-126,523
Treasury stock		0	0	0	0	0	-8,231
Non-controlling equity		0	28,384	13,209	18,540	107,202	113,875
Total equity	Before distribution	1,773,049	1,801,546	2,218,124	2,250,358	2,933,928	2,914,441
	After distribution	1,658,246	1,701,992	2,117,721	2,089,456	(Note 1)	N/A

*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

Unit: NT$1,000

Item \ Year	Financial information for the most recent five years					As of March 31, 2020 (Note 2)
	2015	2016	2017	2018	2019	
Operating revenue	1,392,573	1,383,340	1,972,592	2,332,247	2,436,700	523,189
Gross profit	985,844	979,468	1,422,431	1,601,486	1,736,541	364,615
Operating income	179,228	159,686	161,936	84,800	81,435	-10,635
Non-operating income and expenses	-13,458	-974	3,726	22,649	9,306	-1,144
Net income before tax	165,770	158,712	165,662	107,449	90,741	-11,779
Continuing operations net income	133,807	140,849	110,939	102,492	71,786	-14,444
Loss from suspended operations	0	0	0	0	0	0
Net profit (loss) in this period	133,807	140,849	110,939	102,492	71,786	-14,444
Comprehensive income or loss (net value after tax) in this period	-3,149	-49,034	-17,224	-13,412	-39,094	-7,375
Total amount of comprehensive profit/loss in the year	130,658	91,815	93,715	89,080	32,692	-21,819
Net income attributable to shareholders of the parent	133,807	146,601	130,264	127,554	88,584	-13,163
Net income attributable to non-controlling interests	0	-5,752	-19,325	-25,062	-16,798	-1,281
Comprehensive income (loss) attributable to owners of parent company	130,658	102,816	113,429	113,818	48,135	-20,475
Comprehensive income (loss) attributable to non-controlling interests	0	-11,001	-19,714	-24,738	-15,433	-1,344
Earnings per share	2.30	2.06	1.75	1.61	1.05	-0.17

*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 2020 has been reviewed and verified by accountants, adopting IFRS.

(II) Condensed Balance Sheet - IFRS Individual Financial Report

Unit: NT$1,000

Item		Financial information for the most recent five years 2015	2016	2017	2018	2019
Current assets		1,624,188	1,277,147	1,520,576	1,873,328	1,707,132
Property, plant and equipment		611,699	815,043	1,008,602	1,027,850	1,013,441
Intangible assets		15,134	32,613	37,583	76,478	109,440
Other assets		108,559	684,615	1,239,084	1,290,864	1,725,424
Total assets		2,359,580	2,809,418	3,805,845	4,268,520	4,555,437
Current liabilities	Before distribution	406,175	726,447	949,086	1,143,067	808,161
	After distribution	520,978	826,001	1,049,489	1,303,969	(Note 1)
Non-current liabilities		180,356	309,809	651,844	893,635	920,550
Total liabilities	Before distribution	586,531	1,036,256	1,600,930	2,036,702	1,728,711
	After distribution	701,334	1,135,810	1,701,333	2,197,604	(Note 1)
Equity attributable to owners of parent company		1,773,049	1,773,162	2,204,915	2,327,300	2,949,249
Capital		717,469	717,469	797,129	804,509	904,209
Capital reserve		912,988	915,406	1,243,611	1,280,536	1,827,683
Retained earnings	Before distribution	156,049	187,080	216,990	242,255	217,357
	After distribution	41,249	87,526	116,587	81,353	(Note 1)
Other equity		-13,457	-46,793	-52,815	-95,482	-122,523
Treasury stock		0	0	0	0	0
Non-controlling equity		0	0	0	0	0
Total equity	Before distribution	1,773,049	1,773,162	2,204,915	2,231,818	2,826,726
	After distribution	1,658,246	1,673,608	2,104,512	2,070,916	(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

Item	Financial information for the most recent 5 years 2015	2016	2017	2018	2019
Operating Revenue	1,129,436	1,352,145	1,581,054	1,789,376	1,576,184
Gross profit	633,072	761,299	840,992	914,694	887,981
Operating income	149,255	176,661	190,185	216,377	174,871
Non-operating income and expenses	15,766	-13,243	-16,316	-95,785	-87,270
Net income before tax	165,021	163,418	173,869	120,592	87,601
Continuing operations net income	133,807	146,601	130,264	127,554	88,584
Loss from suspended operations	0	0	0	0	0
Net profit (loss) in this period	133,807	146,601	130,264	127,554	88,584
Total other comprehensive income for the year (Net income after tax)	-3,149	-43,785	-16,835	-13,736	-40,449
Total amount of comprehensive profit/loss in the year	130,658	102,816	113,429	113,818	48,135
Earnings per share	2.30	2.06	1.78	1.61	1.05

*Companies having produced an individual financial report shall produce an individual condensed balance sheet and a 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 and accounting guidelines enforced domestically. For details, refer to data of table (2) below.

Note 1: Financial information as of the abovementioned year has been reviewed and verified by accountants, adopting IFRS.

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

Unit: NT$1,000

Item		Financial information for the most recent five years (Note 1) 2015	2016	2017	2018	2019
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					
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						
Total stockholders' equities	Before distribution					
	After distribution					

Note 1: Financial information of the abovementioned year has been reviewed and verified by accountants.

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

Unit: NT$1,000

Item	Financial information for the most recent five years (Note 1) 2015	2016	2017	2018	2019
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 the abovementioned year has been reviewed and verified by accountants.

(IV) Condensed Balance Sheet - ROC GAAP

Unit: NT$1,000

Year / Item		Financial information for the most recent five years (Note 1)				
		2015	2016	2017	2018	2019
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					
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						
Total stockholders' equities	Before distribution					
	After distribution					

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)				
	2015	2016	2017	2018	2019
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 Most Recent Five Years and Audit Opinions

Audit year	Accounting firm	Name of the accountants	Audit opinion
2015	Ernst & Young	Chang, Chih-Ming; Yang, Chih-Hui	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
2019	Ernst & Young	Ma, Chun-Ting, Huang, Chien-Tse	Unqualified opinion

II. Financial Ratios Analysis for the Most Recent Five Years

(I) Financial Analysis – IFRS

Items	Year (Note 1)	Financial analysis of the most recent five years					As of March 31, 2020 (Note 2)
		2015	2016	2017	2018	2019	
Financial structure (%)	Liability to assets ratio	31.62	39.05	48.36	53.59	44.05	51.89
	Long-term capital to property, plant, and equipment ratio	295.38	227.82	218.78	217.79	267.49	286.27
Solvency (%)	Current ratio	291.91	178.34	150.87	148.77	183.33	166.52
	Liquidity ratio	210.46	107.45	79.75	77.09	89.25	102.67
	Interest coverage ratio	16.39	29.46	13.51	5.00	3.71	-1.87
Operation performance	Receivables turnover rate (times)	7.22	5.69	5.02	4.05	4.00	3.97
	Average days of collection	50	64	72	90	91	91
	Inventory turnover rate (times)	0.78	0.81	0.73	0.70	0.62	0.54
	Accounts payable turnover rate (times)	7.53	7.43	6.09	6.43	6.25	5.69
	Average days of sale	467	450	497	515	581	675
	Property, plant and equipment turnover rate (times)	1.95	1.74	1.72	1.65	1.64	1.42
	Total assets turnover rate (times)	0.61	0.49	0.54	0.51	0.48	0.37
Profitability	Return on assets (%)	6.29	5.24	3.36	2.72	1.97	-0.64
	Return on shareholders' equity (%)	9.61	7.88	5.52	4.58	2.76	-1.97
	Ratio of profit before income tax to paid-in capital (%)	9.34	8.81	7.46	4.77	3.09	-1.61
	Net income ratio (%)	9.60	10.18	5.62	4.39	2.94	-2.76
	Earnings per share (NT$)	2.30	2.06	1.78	1.61	1.05	-0.17
Cash flows	Cash flow ratio (%)	39.60	21.66	1.63	1.14	41.11	2.66
	Cash flow adequacy ratio (%)	38.75	36.72	24.07	22.03	36.79	85.47
	Cash re-investment ratio (%)	8.59	2.90	-2.71	-2.52	9.24	1.34
Leverage	Operating leverage	4.57	4.45	6.12	12.84	13.51	-23.35
	Financial leverage	1.06	1.03	1.08	1.46	1.69	0.61

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

(1) The ratio of long-term capital to property, plant and equipment: This is due to the increase in the total equity due to the Company's issuance of Class A preferred shares during the year.
(2) Current ratio: Mainly due to the issuance of Class A preferred stock in the current period, repayment of short-term loans and reduction of short-term bills payable.
(3) Interest coverage ratio: Mainly due to a decrease in after-tax profit and loss as a result of the increase in interest expenses in the current period and the increase in the promotion expenses of business units.
(4) Return on assets: Mainly due to a decrease in after-tax profit and loss as a result of the increase in non-current assets and interest expenses in this period.
(5) Return on equity: Mainly due to an increase in total equity as a result of the issuance of preferred stock in the current period.
(6) Ratio of profit before tax to paid-in capital: Mainly due to an increase in total equity as a result of the issuance of preferred stock in the current period.
(7) Net profit ratio: Mainly due to a decrease in net profit after tax as a result of the increase in the promotion expenses of the business units in the current period and the loss in investment in mainland China.
(8) Earnings per share: Mainly due to a decrease in after-tax net profit as a result of the increase in operating unit promotion expenses in the current period and the loss of investment in mainland China, and due to dividends paid as a result of the issuance of preferred stock in that year.
(9) Cash flow ratio: Due to a decrease in current liabilities as a result of the increase in net cash inflow from operating activities in the current period compared to the previous period and the decrease in short-term borrowings.
(10) Cash flow adequacy ratio: This is due to the increase in net cash inflows and cash dividends from operating activities in the current period compared to the previous period, and the decrease in capital expenditure and inventory compared to the previous period.
(11) Cash reinvestment ratio: Due to the increase in net cash inflows and cash dividends from operating activities in the current period 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 information of above years has been reviewed and verified by accountants, adopting IFRS.

Individual Financial Analysis – IFRS

Items		Financial analysis of the most recent five years (Year, Note 1): 2015	2016	2017	2018	2019	As of March 31, 2020 (Note 2)
Financial structure (%)	Liability to assets ratio	24.85	36.88	42.06	47.71	37.94	N/A
	Long-term capital to property, plant, and equipment ratio	319.34	255.56	283.23	304.07	369.75	
Solvency (%)	Current ratio	399.87	175.80	160.21	163.88	211.23	
	Liquidity ratio	279.14	107.58	93.31	100.00	121.62	
	Interest coverage ratio	24.16	36.77	17.16	8.60	5.20	
Operation performance	Receivables turnover rate (times)	2.67	3.33	3.11	2.45	2.06	
	Average days of collection	136	109	117	148	176	
	Inventory turnover rate (times)	1.15	1.24	1.23	1.24	1.03	
	Accounts payable turnover rate (times)	6.07	7.07	8.76	10.67	10.49	
	Average days of sale	315	292	296	292	352	
	Property, plant and equipment turnover rate (times)	1.93	1.89	1.73	1.75	1.55	
	Total assets turnover rate (times)	0.55	0.52	0.47	0.44	0.35	
Profitability	Return on assets (%)	6.85	5.81	4.20	3.48	2.40	
	Return on shareholders' equity (%)	9.61	8.26	6.54	5.75	3.50	
	Ratio of profit before income tax to paid-in capital (%)	9.30	9.21	7.88	5.40	3.09	
	Net income ratio (%)	11.84	10.84	8.23	7.12	5.62	
	Earnings per share (NT$)	2.30	2.06	1.78	1.61	1.05	
Cash flows	Cash flow ratio (%)	68.69	21.89	11.96	1.14	68.54	
	Cash flow adequacy ratio (%)	52.93	48.61	44.03	36.85	63.02	
	Cash re-investment ratio (%)	9.96	1.95	0.45	-2.60	10.27	
Leverage	Operating leverage	4.16	3.81	4.37	4.32	4.37	
	Financial leverage	1.05	1.02	1.05	1.07	1.13	

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

(1) Debt-to-asset ratio: Mainly due to the increase in investment accounted for using the equity method and right-of-use assets, and a decrease in short-term loans and short-term notes payable.
(2) Current ratio: Mainly due to the issuance of Class A preferred stock in the current period, repayment of short-term loans and reduction of short-term bills payable.
(3) Quick ratio: Mainly due to the decrease in short-term loans and short-term bills payable in the current period.
(4) Interest coverage ratio: Mainly due to a decrease in after-tax profit and loss as a result of the increase in interest expenses in the current period and the increase in the promotion expenses of business units.
(5) Average days of sale: Mainly due to the growth of revenue from mainland China made by all business units, which resulted in the increase of accounts receivable.
(6) Return on assets: Mainly due to a decrease in after-tax profit and loss as a result of the increase in non-current assets and interest expenses in this period.
(7) Return on equity: Mainly due to an increase in total equity as a result of the issuance of preferred stock in the current period.
(8) Ratio of profit before tax to paid-in capital: Mainly due to an increase in total equity as a result of the issuance of preferred stock in the current period.
(9) Net income ratio: Mainly due to a decrease in after-tax net profit as a result of the decrease in sales revenue from mainland China in the current period compared to last year.
(10) Earnings per share: Mainly due to the decrease in sales revenue from mainland China in the current period compared to last year, which resulted in a decrease in after-tax net profit, and due to the dividends paid for Class A preferred stocks issued in that year.
(11) Cash flow ratio: Due to a decrease in current liabilities as a result of the increase in net cash inflow from operating activities in the current period compared to the previous period and the decrease in short-term borrowings.
(12) Cash flow adequacy ratio: This is due to the increase in net cash inflows and cash dividends from operating activities in the current period compared to the previous period, and the decrease in capital expenditure and inventory compared to the previous period.
(13) Cash reinvestment ratio: Due to the increase in net cash inflows and cash dividends from operating activities in the current period 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: In accordance with relevant regulations, the financial information for 2020 listed above does not contain a set of

■ IFRS-based individual financial statements.

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 EPS calculation formula listed 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, 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. The gross value of PP&E refers to the total value of PP&E minus accumulated depreciation.

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

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

(II) Financial Analysis - ROC GAAP

Items			Year: Financial data from in the most recent five years 2015	2016	2017	2018	2019
Financial structure (%)	Liability to assets ratio		N/A	N/A	N/A	N/A	N/A
	Long-term fund to fixed assets ratio						
Solvency (%)	Current ratio						
	Liquidity ratio						
	Interest coverage ratio						
Operation performance	Receivables turnover rate (times)						
	Average days of collection						
	Inventory turnover rate (times)						
	Payables turnover rate						
	Average days of sale						
	Fixed asset turnover (times)						
	Total assets turnover rate (times)						
Profitability	Return on assets (%)						
	Return on shareholders' equity (%)						
	Percentage of paid-up capital (%)	Operating profit					
		Pre-tax net profit					
	Net income ratio (%)						
	Earnings per share (NT$)						
Cash flows	Cash flow ratio (%)						
	Cash flow adequacy ratio (%)						
	Cash re-investment ratio (%)						
Leverage	Operating leverage						
	Financial leverage						
Description of causes for changes to various financial ratios in the most recent two years. (Analysis would not be required if the change is within 20%): N/A							

Consolidated Financial Analysis - ROC GAAP

Analysis Items			Year: Financial data from in the most recent five years 2015	2016	2017	2018	2019
Financial structure (%)	Liability to assets ratio		N/A	N/A	N/A	N/A	N/A
	Long-term fund to fixed assets ratio						
Solvency (%)	Current ratio						
	Liquidity ratio						
	Interest coverage ratio						
Operation performance	Receivables turnover rate (times)						
	Average days of collection						
	Inventory turnover rate (times)						
	Payables turnover rate						
	Average days of sale						
	Fixed asset turnover (times)						
	Total assets turnover rate (times)						
Profitability	Return on assets (%)						
	Return on shareholders' equity (%)						
	Percentage of paid-up capital (%)	Operating profit					
		Pre-tax net profit					
	Net income ratio (%)						
	Earnings per share (NT$)						
Cash flows	Cash flow ratio (%)						
	Cash flow adequacy ratio (%)						
	Cash re-investment ratio (%)						
Leverage	Operating leverage						
	Financial leverage						

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

■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, 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 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 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 shall 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 2019 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 Shareholder’s Meeting 2020

United Orthopedic Corporation

Supervisors: Wang, Ching-Hsiang

Wong, Chi-Yin

Chen, Li-Ju

March 20, 2020

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.

Declaration of Consolidated Financial Statements of Affiliated Companies

In year 2019 (from January 1 to December 31, 2019), pursuant to Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, the Company's entities that shall be included in preparing the Consolidated Financial Statements for Affiliates and the Parent-Subsidiary Consolidated Financial Statements for International Financial Reporting Standards (IFRS) 10 are the same. Moreover, the disclosure information required for the Consolidated Financial Statements for Affiliates has been fully disclosed in the aforementioned Parent-Subsidiary Consolidated Financial Statements; hence, a separate Consolidated Financial Statements for Affiliates will not be prepared.

As hereby declared

Company name: United Orthopedic Corporation

Person in Charge: Lin, Yan-Shen

March 19, 2020

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, 2019 and 2018, 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 consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2019 and December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC), as endorsed by the Finanical Supervisory Commission (FSC).

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, 2019 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 inventory of United Orthopedic Corporation and its subsidiaries is NT$1,157,050 thousand, accounting for 22% of the consolidated total assets, which is considered significant to the consolidated financial statements. Because of the innovation of orthopedic equipment production technology, the inventory might be outdated or the selling price might fall. It is estimated that net realizable value and loss for obsolete and slow-moving inventories have involved significant management judgment. We believe that the inventory valuation is important for the audit of the consolidated financial statements, so the inventory valuation is determined as key audit matters. Our audit procedures include, but are not limited to, the following audit procedures: understanding and testing the effectiveness of the internal control established by the management against loss for market price decline and obsolete and slow-moving inventories. 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$2,436,700 thousand in revenue for the year ended December 31, 2019. The amount was considered significant to the consolidated financial statements. Because of the characteristics of the medical industry and customer needs, different types of transaction conditions are involved; thus, it is necessary to judge and determine the contract performance obligations and the timing of meeting the performance obligations. We believe that the recognition of contract revenue of the Company is important for the audit of the consolidated financial statements, so it is determined as a key audit matter. Our audit procedures include but are not limited to the following audit procedures: understand and evaluate the appropriateness of the accounting policy for revenue recognition. 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.

Recognition of expenditure on internally generated intangible assets

United Orthopedic Corporation and its subsidiaries' net carrying amount of internally generated intangible assets were NT$95,982 thousand as of December 31, 2019, which was considered significant to the consolidated financial statements. 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, 2019 and 2018, 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:
Financial Supervisory Securities Official Letter No. Zheng- (Shen-) 1060027042
Financial Supervisory Securities Official Letter No. VI-0970038990

Ma, Chun-Ting

CPA

Huang, Chien-Che

March 19, 2020

United Orthopedic Corporation and its subsidiaries
Consolidated balance sheet
December 31, 2019 and December 31, 2018

Unit: NT$1,000

Assets			December 31, 2019		December 31, 2018	
Code	Accounting Items	Note	Amount	%	Amount	%
	Current assets					
1100	Cash and cash equivalents	4 & 6.1	$539,122	10	$528,484	11
1150	Net notes receivable	4, 6.5 & 6.21	3,041	-	17,935	-
1170	Net accounts receivable	4, 6.6 & 6.21	496,224	10	431,839	9
1180	Accounts receivable - related parties, net	4, 6.6, 6.21 & 7	56,704	1	211,696	4
1200	Other receivables	4	7,758	-	21,406	-
1210	Other receivables - related parties	4 & 7	5,409	-	-	-
1220	Current income tax assets	4 & 6.26	3,462	-	1,609	-
130x	Inventory	4 & 6.7	1,157,050	22	1,118,660	23
1410	Prepayments		37,204	1	43,145	1
1470	Other current assets		8,626	-	6,240	-
11xx	Total current assets		2,314,600	44	2,381,014	48
	Non-current assets					
1510	Financial assets at fair value through profit or loss - non-current	4, 6.2 & 6.15	-	-	40	-
1517	Financial assets measured at fair value through other comprehensive income - non-current	4 & 6.3	3,135	-	3,483	-
1535	Financial assets at amortized cost - non-current	4, 6.4, 6.21 & 8	12,704	-	6,714	-
1550	Investment using equity method	4 & 6.8	564,805	11	378,707	8
1600	Property, plant and equipment	4, 6.9 & 8	1,488,791	28	1,467,472	31
1755	Right-of-use assets	4, 6.22	197,740	4	-	-
1780	Intangible assets	4, 6.10 and 6.11	500,251	10	471,893	10
1840	Deferred income tax assets	4 & 6.26	107,736	2	85,585	2
1900	Other non-current assets	7	54,842	1	54,924	1
15xx	Total non-current assets		2,930,004	56	2,468,818	52
1xxx	Total assets		$5,244,604	100	$4,849,832	100

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

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

United Orthopedic Corporation and its subsidiaries
Consolidated balance sheet (continued)
December 31, 2019 and December 31, 2018

Liabilities and equity			December 31, 2019		December 31, 2018	
Code	Accounting Items	Note	Amount	%	Amount	%
	Current liabilities					
2100	Short-term debt	4 & 6.12	$199,880	4	$973,982	20
2110	Short-term notes and bills payable	4 & 6.13	-	-	49,984	1
2130	Contract liabilities - current	4 & 6.20	4,420	-	12,985	-
2150	Notes payable	4	2,236	-	775	-
2170	Accounts payable	4	69,750	1	67,207	1
2180	Accounts payable - related parties	4 & 7	54,476	1	33,818	1
2200	Other payables	4	425,315	8	387,738	8
2220	Other payables - related parties	4 & 7	2,934	-	1,860	-
2230	Current income tax liabilities	4 & 6.26	28,461	1	13,309	-
2280	Lease liabilities - current	4 & 6.22	22,501	-	-	-
2300	Other current liabilities		12,033	-	9,128	-
2321	Corporate bonds that mature or execute right to sell back within one year or one operating cycle	4 & 6.15	396,813	8	-	-
2322	Portion of long-term debt due within one year or one operating cycle	4, 6.16 and 8	43,714	1	49,597	1
21xx	Total current liabilities		1,262,533	24	1,600,383	32
	Non-current liabilities					
2500	Financial liabilities at fair value through profit or loss - non-current	4, 6.14 and 6.15	3,250	-	-	-
2530	Corporate bonds payable	4 & 6.15	473,171	9	391,223	8
2540	Long-term debt	4, 6.16 and 8	295,395	6	493,907	10
2570	Deferred income tax liabilities	4 & 6.26	22,691	-	17,330	-
2580	Lease liabilities - non-current	4 & 6.22	176,176	4	-	-
2600	Other non-current liabilities		1,470	-	5,238	-
2630	Long-term deferred income	6.8	73,424	1	79,792	2
2640	Net defined benefit liability - non-current	4 & 6.17	2,566	-	11,601	-
25xx	Total non-current liabilities		1,048,143	20	999,091	20
2xxx	Total Liabilities		2,310,676	44	2,599,474	52
31xx	Equity attributable to owners of parent company	4, 6.18 & 6.28				
3100	Capital					
3110	Common stock		804,209	15	804,509	17
3120	Preferred stock		100,000	2	-	-
	Total share		904,209	17	804,509	17
3200	Additional paid-in capital		1,827,683	35	1,280,536	27
3300	Retained earnings					
3310	Legal reserve		81,687	2	68,932	2
3320	Special reserve		59,505	1	47,655	1
3350	Undistributed earnings		76,165	1	125,668	3
	Total retained earnings		217,357	4	242,255	6
3400	Other equity interest					
3410	Exchange differences on translation of foreign financial statements		(97,388)	(2)	(56,254)	(1)
3420	Unrealized gain and loss from financial assets measured at fair value through other comprehensive income		(3,772)	-	(3,251)	-
3491	Employees unearned remuneration	4 & 6.19	(21,363)	-	(35,977)	(1)
	Total other equity		(122,523)	(2)	(95,482)	(2)
32xx	Non-controlling interest		107,202	2	18,540	-
3xxx	Total equity		2,933,928	56	2,250,358	48
	Total liabilities and equity		$5,244,604	100	$4,849,832	100

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

Chairman: Lin, Yan-Sheng　　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, 2019 and 2018

Unit: NT$1,000

Code	Accounting Items	Notes	2019 Amount	2019 %	2018 Amount	2018 %
4000	Operating revenue	4, 6.20 & 7	$2,436,700	100	$2,332,247	100
5000	Operating costs	4, 6.7, 6.22, 6.23 & 7	714,201	30	716,500	31
5900	Gross profit		1,722,499	70	1,615,747	69
5920	Realized (unrealized) sales gain		14,042	1	(14,261)	(1)
5950	Net gross profit		1,736,541	71	1,601,486	68
6000	Operating expense	4, 6.21, 6.22 & 6.23				
6100	Selling expense		1,240,845	51	1,081,897	46
6200	Administrative expense		224,899	9	237,434	10
6300	Research and development expense		188,337	8	200,454	9
6450	Expected credit impairment loss (gain)		1,025	-	(3,099)	-
	Total operating expenses		1,655,106	68	1,516,686	65
6900	Operating profit		81,435	3	84,800	3
7000	Non-operating income and expenses	4, 6.8, 6.24 & 7				
7010	Other income		66,558	3	45,974	2
7020	Other profit and loss		(4,745)	-	9,171	-
7050	Financial cost		(33,383)	(1)	(26,802)	(1)
7060	Share of the loss of associates and joint ventures accounted for using the equity method		(19,124)	(1)	(5,694)	-
	Total non-operating income and expenses		9,306	1	22,649	1
7900	Net income before tax		90,741	4	107,449	4
7950	Income tax expenses	4 & 6.26	(18,955)	(1)	(4,957)	-
8200	Current net income		71,786	3	102,492	4
8300	Other comprehensive gain or loss	4 & 6.25				
8310	Items not to be reclassified to profit or loss					
8311	Remeasurement of defined benefit plans		1,206		(1,886)	-
8316	Unrealized valuation loss on equity investments measured at fair value through other comprehensive income		(737)	-	(3,253)	-
8320	Share of other comprehensive income (loss) of affiliates and joint ventures accounted for using equity method - items not to be reclassified into profit or loss		-	-	-	-
8349	Income tax related to items not to be classified		-	-	-	-
8360	Items that may be subsequently reclassified into profit or loss					
8361	Exchange differences on translation of foreign financial statements		(18,047)	(1)	630	-
8370	Share of other comprehensive income (loss) of affiliates and joint ventures accounted for using equity method - items that may be reclassified into profit or loss		(21,516)	(1)	(8,903)	-
8399	Income tax relating to items that may be reclassified into profit or loss		-	-	-	-
	Current comprehensive income or loss (net value after tax)		(39,094)	(2)	(13,412)	-
8500	Current total comprehensive income		$32,692	1	$89,080	4
8600	Net profit attributable to:					
8610	Owners of parent company		$88,584		$127,554	
8620	Non-controlling interest		(16,798)		(25,062)	
	Total		$71,786		$102,492	
8700	Total comprehensive income attributable to:					
8710	Owners of parent company		$48,135		$113,818	
8720	Non-controlling interest		(15,443)		(24,738)	
	Total		$32,692		$89,080	
	Earnings per share (NT$)	4 & 6.27				
9750	Basic earnings per share		$1.05		$1.61	
9850	Diluted earnings per share		$1.01		$1.55	

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

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

United Orthopedic Corporation and its subsidiaries

Consolidated Statement of Changes in Equity

January 1 to December 31, 2019 and 2018

Unit: NT$1,000

		Equity attributable to owners of parent company												
		Equity			Retained earnings			Other equity						
Code	Item	Common stock	Preferred stock	Additional paid-in capital	Legal reserve	Special reserve	Undistributed earnings	Exchange differences on translation of financial statements of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Employees unearned remuneration	Equity attributable to owners of parent company	Non-controlling interest	Total equity
		3100	3120	3200	3310	3320	3350	3410	3420	3491	31XX	36XX	3XXX
A1	Balance as of January 1, 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 legal reserve	-	-	-	13,026	-	(13,026)	-	-	-	-	-	-
B3	Appropriate special reserve	-	-	-	-	16,035	(16,035)	-	-	-	-	-	-
B5	Cash dividend of ordinary shares	-	-	-	-	-	(100,403)	-	-	-	(100,403)	-	(100,403)
D1	2018 net profit	-	-	-	-	-	127,554	-	-	-	127,554	(25,062)	102,492
D3	2018 other comprehensive income	-	-	-	-	-	(1,886)	(8,599)	(3,251)	-	(13,736)	324	(13,412)
D5	Current total comprehensive income	-	-	-	-	-	125,668	(8,599)	(3,251)	-	113,818	(24,738)	89,080
E1	Cash capital increase										-		-
M7	Changes in ownership interest in 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	Increase and decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	-	31,972	31,972
Z1	Balance as of 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
A1	Balance as of January 1, 2019	$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
	2018 Earnings distribution												
B1	Appropriate legal reserve	-	-	-	12,755	-	(12,755)	-	-	-	-	-	-
B3	Appropriate special reserve	-	-	-	-	11,850	(11,850)	-	-	-	-	-	-
B5	Cash dividend of ordinary shares	-	-	-	-	-	(101,063)	-	-	-	(101,063)	-	(101,063)
C5	Composition of equity recognized due to convertible bond issuance- arising from stock options	-	-	26,300	-	-	-	-	-	-	26,300	-	26,300
C15	Distribution of cash dividend from capital surplus	-	-	(59,839)	-	-	-	-	-	-	(59,839)	-	(59,839)
D1	2019 net profit	-	-	-	-	-	88,584	-	-	-	88,584	(16,798)	71,786
D3	2019 other comprehensive income	-	-	-	-	-	1,206	(41,134)	(521)	-	(40,449)	1,355	(39,094)
D5	Current total comprehensive income	-	-	-	-	-	89,790	(41,134)	(521)	-	48,135	(15,443)	32,692
J3	Issued preferred stock	-	100,000	417,500	-	-	-	-	-	-	517,500	-	517,500
M5	Difference in the carrying amount of share price and its acquired or disposed value of equity of subsidiaries acquired	-	-	164,332	-	-	-	-	-	-	164,332	93,197	257,529
M7	Changes in ownership interest in subsidiaries	-	-	-	-	-	(13,625)	-	-	-	(13,625)	13,625	-
N2	Share-based payment transaction - new restricted employee shares	(300)	-	(1,362)	-	-	-	-	-	14,614	12,952	-	12,952
N3	Share-based payment transaction - employee preferred stock	-	-	216	-	-	-	-	-	-	216	-	216
O1	Increase and decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(2,717)	(2,717)
Z1	Balance as of December 31, 2019	$804,209	$100,000	$1,827,683	$81,687	$59,505	$76,165	$(97,388)	$(3,772)	$(21,363)	$2,826,726	$107,202	$2,933,928

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

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

United Orthopedic Corporation and its subsidiaries
Consolidated Cash Flow Statement
January 1 to December 31, 2019 and 2018

Unit: NT$1,000

Code	Item	2019 Amount	2018 Amount
AAAA	Cash flow from operating activities:		
A10000	Current net income before tax	$90,741	$107,449
A20000	Adjustment items:		
A20010	Income and expenses items:		
A20100	Depreciation expense	251,245	197,911
A20200	Amortization expense	18,856	16,871
A20300	Expected credit impairment loss (gain)	1,025	(3,099)
A20400	Net loss of financial assets measured at fair value through profit or loss	890	40
A20900	Interest expense	33,383	26,802
A21200	Interest income	(3,843)	(2,995)
A21900	Share-based payment compensation cost	13,168	11,585
A22300	Share of the loss of associates and joint ventures accounted for using the equity method	19,124	5,694
A22500	Loss on disposal of property, plant and equipment	844	734
A24000	(Realized) unrealized sales gain	(14,042)	14,261
A29900	Other income	(6,371)	(25,473)
A30000	Changes in assets/liabilities related to operating activities		
A31130	Decrease (increase) in notes receivable	14,894	(1,181)
A31150	Increase in accounts receivable	(66,410)	(61,310)
A31160	Decrease (increase) in Accounts Receivable - related parties	154,992	(105,695)
A31180	Decrease (increase) in other receivables	13,665	(5,858)
A31190	Decrease (increase) in other receivables - related parties	(5,409)	106,059
A31200	Increase in inventories	(34,143)	(212,641)
A31220	Decrease in prepaid expenses	5,941	18,890
A31240	Decrease (increase) in other current assets	(2,386)	1,996
A32125	Increase (decrease) in contract liabilities	(8,565)	811
A32130	Increase (decrease) in notes payable	1,461	(14,298)
A32150	Increase (decrease) in accounts payable	2,543	(18,974)
A32160	Increase in accounts payable - related parties	20,658	14,085
A32180	Increase in other payables	39,249	14,605
A32190	Increase in other payables - related parties	1,074	1,860
A32230	Increase (decrease) in other current liabilities	2,905	(12,764)
A32240	Decrease in net defined benefit liability	(7,829)	(7,141)
A33000	Cash inflow generated from operations	537,660	68,224
A33100	Interest received	3,825	2,931
A33500	Income tax paid	(22,391)	(52,801)
AAAA	Net cash inflow from operating activities	519,094	18,354

Code	Item	2019 Amount	2018 Amount
BBBB	Cash flow from investment activities:		
B00010	Acquisition of financial assets measured at fair value through other comprehensive income	(390)	(1,926)
B00040	Acquisition of financial assets at amortized cost	(5,990)	(9)
B01800	Acquisition of investments using equity method	(216,944)	-
B02700	Acquisition of property, plant and equipment	(208,548)	(262,503)
B02800	Disposal of property, plant, and equipment	139	111
B03700	Increases in refundable deposits	(5,119)	(8,983)
B04500	Acquisition of intangible assets	(47,279)	(53,641)
B07100	Increase in prepayments for business facilities	(38,460)	(61,047)
BBBB	Net cash outflow from investing activities	(522,591)	(387,998)
CCCC	Cash from financing activities:		
C00100	(Decrease) increase in short-term debt	(769,141)	277,548
C00500	Increase in short-term notes and bills payable	-	49,984
C00600	Decrease in short-term notes and bills payables	(49,984)	-
C01200	Corporate bonds issuance	500,000	-
C01600	Long-term loans raised	-	257,140
C01700	Repayment of long-term debt	(204,395)	(6,615)
C03000	Increase in guarantee deposit received	496	44
C04020	Repayment of lease principal	(26,679)	-
C04300	Increase in other non-current liabilities	(4,263)	3,360
C04500	Cash dividends paid	(160,902)	(100,403)
C04600	Cash capital increase	517,500	-
C05500	Disposal of equity interests in subsidiaries (control not lost)	254,812	31,972
C05600	Interest paid	(25,187)	(18,246)
CCCC	Net cash inflow from financing activities	32,257	494,784
DDDD	Effect of exchange rate changes on cash and cash equivalents	(18,122)	1,957
EEEE	Current increase in cash and cash equivalents	10,638	127,097
E00100	Beginning balance of cash and cash equivalents	528,484	401,387
E00200	Ending balance of cash and cash equivalents	$539,122	$528,484

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

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

United Orthopedic Corporation and its subsidiaries
Notes to Consolidated Financial Statements
January 1, 2019 to December 31, 2019
January 1, 2018 to December 31, 2018
(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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 Company'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 Company and its subsidiaries ("the Group") for 2019 and 2018 were authorized for issue by the Board of Directors on March 19, 2020.

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) and Interpretations developed by IFRIC or SIC that have been approved by FSC and applicable since January 1, 2019. First-time adoption has not had significant influences on the Group besides the following explanations on the characters and impacts from the new standards and amendments:
   (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". Pursuant to transitional treatment of IFRS 16, the Group's initial adoption was on January 1, 2019. The effects of adopting IFRS 16 are as follows:
   A. Please refer to Note 4 for the accounting policies adopted by the Group after and prior to January 1, 2019.

B. Definition of lease: the Group has chosen not to re-evaluate whether contracts were (or included) leases on 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. In other words, the Group only evaluates contracts signed (or changed) on or after January 1, 2019 for applicability of IFRS Leases. Compared with IAS 17, IFRS 16 stipulates that a contract is (or includes) a lease if it transfers control of the use of an identified asset for a period of time in exchange for considerations. After evaluating the definition of the application of the new leases for most circumstances, the Group has concluded that no material impact has been made to the evaluation of whether a contract is (or includes) a lease.

C. 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.

(a) 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.

In addition, on January 1, 2019, for all leases that were classified as operating leases through application of IAS 17 - Leases, with all related rent paid, the long-term repaid rent NT$0 has been reclassified as right-of-use asset.

Pursuant to transitional treatment of IFRS 16, the Group has adopted the following practical expedient for leases that were formerly classified as operating leases based on individual leases:

i. Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
ii. The assessment of whether the leases were at a loss immediately before January 1, 2019 was adopted as an alternative method for performing impairment review.
iii. Leases that will end within 12 months after January 1, 2019 will be treated as short-term leases.
iv. Original direct costs will not be counted toward the right-of-use asset valuation as of January 1, 2019.
v. Hindsight is used, such as determination of a lease term (if the contract includes an option to extend or terminate the lease).

(b) Please refer to Note 4 and Note 6 for details on newly introduced regulations on disclosures related to lessees pursuant to IFRS 16.
(c) Below is a description of the impacts to financial statements from the first-time adoption of IFRS 16 on January 1, 2019:
i. The weighted average of the lessee's incremental borrowing rate of interest to which the lease liability is applied and recognized on January 1, 2019 is 1.4800%-1.5484%.
ii. Based on the operating lease commitments disclosed in accordance with IAS 17 on December 31, 2018, the difference between said commitments discounted using the incremental borrowing rate of January 1, 2019 and the ones recognized as the lease liability on the balance sheet on January 1, 2019 is NT$0; the description is as follows:

The operating lease commitments disclosed in accordance with IAS 17 on December 31, 2018	$244,919
Discounted using the incremental borrowing rate of January 1, 2019	$197,612
Plus: Obligation under financial leases on the book as of December 31, 2018	-
Lease liabilities recognized on the book as of December 31, 2018	$197,612

D. The Group as a lessor has not made any adjustments, and has only added disclosures related to the lessees. Please refer to Notes 4 and 6 for details.

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	Definition of a business (Amendments of IFRS 3)	January 1, 2020
2	Definition of Material (Amendments to IAS 1 and IAS 8)	January 1, 2020
3	Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39, and IFRS 7)	January 1, 2020

(1) 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 asset portfolios 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 material, and narrowing the definitions of a business and outputs.

(2) Definition of Materialilty (Amendments to IAS 1 and IAS 8)

This change is mostly attributable to the redefinition of materiality: if any omission or misstatement of information can be reasonably expected to influence decisions made by primary users of general-purpose financial statements based on such financial statements, then the information is material. This amendment clarifies whether materiality depends on the nature or scale of the information, or both. An enterprise will evaluate whether information is material based on the entirety of the financial statements.

(3) Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39, and IFRS 7)

This amendment targets all hedging relationships directly influenced by the interest rate benchmark reform, and a few exceptions to the rule have also been included. When uncertainty arises from the timing or amount of cash flow from the benchmark basis of the hedged item or hedge instrument due to the interest rate benchmark reform, the hedging relationship will be directly influenced. Therefore, a company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform.

This amendment includes the following:

A. The Rule of "Highly Probable"

When determining whether a forecast transaction is highly probable, a company shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

B. Prospective Assessments

When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

C. IAS 39 Retrospective Assessment

A company is not required to undertake the IAS 39 retrospective assessment for hedging relationships directly affected by the reform (i.e. whether the actual results of the hedge are within the 80–125% range).

D. Separately Identifiable Risk Components

For hedges of a non-contractually specified benchmark component of interest rate risk, a company shall apply the separately identifiable requirement only at the inception of such hedging relationships.

These amendments also include rules that terminate the application of the exceptions and the disclosure of such amendments.

The abovementioned standards and interpretations issued by IASB and recognized by FSC, and the new standards, amendments, or amended guidelines or interpretations applicable for the annual period beginning on or after January 1, 2020 have no material impact on the Group.

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 decided by IASB
2	IFRS 17 "Insurance Contracts"	January 1, 2021
3	Liabilities classified as current or non-current (amendment to IAS 1)	January 1, 2022

(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 Company 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:

A. Estimated future cash flow

B. Discount rate: an adjustment that reflects the time value of money and the financial risks associated with future cash flows (within financial risks not included in the estimated value of future cash flows); and

C. 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:

A. Specific applicable methods with contracts characterized by direct participation (variable fee method)

B. Simplified short-term contract method (premium allocation approach)

(3) Liabilities classified as current or non-current (amendment to IAS 1)

This amendment targets sections 69-76 in IAS 1 - Presentation of Financial Statements concerning the classification of liability as either current or non-current.

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, 2019 and 2018 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 Company 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 Company 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 Company directly or indirectly has less than a majority of the voting or similar rights over an investee, the Company 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 Company 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:

Investment company name	Name of Subsidiary	Principal Activities	Percentage of Ownership 2019.12.31	2018.12.31	Remark
The Company	United Medical (B.V.I.) Corporation	Sales and investment	-	-	Note 3
The Company	UOC America Holding Corporation	Sales and investment	100.00%	100.00%	
The Company	UOC Europe Holding SA	Sales and investment	96.00%	96.00%	Note 1
The Company	United Biomech Japan	Sales	65.00%	53.00%	Note 2
The Company	A-SPINE Asia Co., Ltd.	Sales, investment and manufacturing	74.90%	99.40%	Note 4
United Medical (B.V.I.) Corporation	Lemax Co., Ltd.	Investment company name	-	-	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%	
UOC Europe Holding SA	UOC Belgium	Sales	100.00%	-	Note 5
A-SPINE Asia Co., Ltd.	Pauline Medical Co., Ltd.	Sales	100.00%	100.00%	

Note 1: In Q2 2016, the Group invested UOC Europe Holding SA. By the end of December 31, 2019, the aggregated remittance for investment has reached CHF 13,500 thousand (NT$420,142 thousand).

Note 2: In Q3 2016, the Group invested in United Biomech Japan. By the end of September 30, 2019, the aggregated remittance for investment has reached JPY 369,500 thousand (NT$105,294 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 2017. As of December 31, 2019, the accumulated outward remittance of investment amounted to NT$386,480 thousand.

Note 4: The Group has invested in UOC Belgium since the third quarter of 2019. As of December 31, 2019, the accumulated outward remittance of investment amounted to EUR 500 thousand (NT$17,194 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 are accounted for based on the accounting policy for financial instruments.

(3) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation 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 Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
(2) The Company holds the asset primarily for the purpose of trading.
(3) The Company 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 Company expects to settle the liability in its normal operating cycle.
(2) The Company 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 Company 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.

For financial assets and financial liabilities within the scope of IFRS 9-Financial Instruments, they are measured at fair value at the time of initial recognition, and the transaction costs directly attributable to the acquisition or issuance of financial assets and financial liabilities (except for the financial assets and financial liabilities measured at FVTPL) are added or subtracted from the fair value of the financial assets and financial liabilities.

(1) Recognition and measurement of financial assets

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

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 Company 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.

(2) Impairment of financial assets

The Company 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. 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.
D. For the lease receivables generated in transactions within the scope of IFRS 16 (IAS before January 1, 2019), the Group adopts the lifetime expected credit losses to measure the amount of loss allowance.

At each balance sheet date, the Company 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.

(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

<u>Classification between liabilities and equity</u>
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 issued conversion corporate bonds from the Group do include an equity element, they are handled in accordance with IFRS 9 Hybrid Instruments.

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-Financial Instruments: Recognition and Measurement 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 liabilities or a group of financial assets and financial liabilitie is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and the portfolio information provided to the management within the merged company is also based on fair value.

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

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include bills payable, 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. Derivatives

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 while derivatives that are designated effective hedging instruments which are classified as derivative assets or liabilities for hedging in the balance sheet.

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 recognized as profit or loss, except for the effective portion of hedges shall be recognized under profit or loss or equity accordin gto the types of the hedges.

Wheree a host contract is a non-financial asset or non-financial liability, 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.

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 Company 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 Group uses valuation techniques that are appropriate and relevant in the relevant circumstances to measure fair value and maximize the use of observable inputs and to minimize the use of unobservable inputs.

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.

The provision of labor services is accounted for in accordance with IFRS 15 and 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 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 Company determines at the end of each reporting period whether there is any objective evidence that the investment in an affiliate company or a joint venture is impaired in accordance with IAS 28 - Investment in Related Companies and Joint Ventures. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the affiliate company or the joint venture and its carrying value and recognizes the amount in the "share of profit or loss of an affiliate company or a joint venture" in the statement of comprehensive income 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

Note: The Group's leased assets have been reclassified as right-of-use assets after IFRS 16 has been adopted since January 1, 2019.

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

Accounting treatment starting from January 1, 2019 is as follows:

For contracts formed on or after January 1, 2019, the Group will evaluate whether the contracts are (or include) leases. A contract is (or includes) a lease if it transfers control of the use of an identified asset for a period of time in exchange for considerations. To evaluate whether the contract has transferred the control of the use of an identified asset for a period of time, the Group will evaluate whether the following two factors will occur during the entire duration of use:
(1) rights to nearly all economic benefits of the identified asset have been received; and
(2) the control over the right to use the identified asset.

The Group has chosen not to reassess whether contracts are (or include) leases on 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.
For contracts that are (or include) leases, the Group will treat each lease component in the contract individually, and to separately treat them from the non-lease components in the contracts. For leases that include one lease component and one or more additional lease or non-lease components, the Group will use the single comparison price of each lease component and the aggregated single prices of non-

lease components as the basis, and distribute the consideration in the contract to the lease component. The comparison single unit price of the lease and non-lease components will be decided upon the prices separately received by the lessor (or supplier) for such components. If observable single unit prices are not readily available, the Group will maximize the use of observable information to estimate their respective single unit prices.

The Group being a lessee

Except for leases that meet and are selected to be treated as short-term leases or low-value assets, when the Group is the lessee of a lease contract, the Group will recognize all right-of-use asset and lease liabilities related to all leases.

At the start date, the Group measures the lease liability at the present value of the unpaid lease payments on that date. If the interest rate implicit in a lease can be easily determined, the lease payment is discounted at the interest rate. If such interest rate is difficult to determine, the lessee's incremental borrowing rate of interest will be used. On the start date, the lease payment of the lease liability will be accounted for, including the following payments that have to do with the target right-of-use asset during the lease period that have not been paid on that date:

(1) Fixed payments (including substantive fixed payments), minus any lease incentives that can be obtained;
(2) Variable lease payments dependent upon certain indicators or rates (measured by the indicators or rates used on the start date);
(3) Lease payments expected to be paid by the leasee under the residual value guarantee; and
(4) Exercise price for purchase of options, if the Group can be reasonably assured that the right will be exercised; and
(5) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the start date, the Group will measure the lease liability using amortized cost-based measurement, and the carrying amount of the lease liability will be added by the effective interest method to reflect interest of the lease liability. Lease payment will be subtracted from the carrying amount of the lease liability.

On the start date, the Group will measure the right-of-use asset at cost, and the cost of the right-of-use asset will include:
(1) The amount of the initial measurement of the lease liability;
(2) Any lease payment paid on the start date or before, minus any lease incentives taken;
(3) Any initial direct costs incurred to the leasee; and
(4) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located, or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Valuation of the right-of-use asset will be cost minus accumulated depreciation and accumulated impairment loss, or the right-of-use asset can be measured at cost model.

If the ownership of the target asset will be transferred to the Group when the lease period expires, or if the cost of the right-of-use asset reflects that the Group will exercise purchase option, then the depreciation of the right-of-use asset will be measured from the start date of the lease until the end of the asset's useful life. Otherwise, the Group will depreciate the right-of-use asset from the start date until the end of its useful life, or the end of the lease term, whichever is the earlier of the two.

The Group uses IAS 36 Asset Impairment to determine whether an asset has been impaired and treats any identified impairment loss.

Except for lease of assets that meet and were selected to be short-term lease or low-value asset, the Group will recognize right-of-use assets and lease liabilities on the balance sheet, and separately recognize any depreciation expense and interest expense related to the lease on the statement of comprehensive income.

For short-term leases and low-value asset leases, the Group chooses to use straight-line basis or another systematic basis, and recognizes related lease payments as expenses during the lease terms.

<u>The Group being a lessor</u>

On the date of establishing the contract, the Group will classify each lease as either operating lease or financing lease. If nearly all risks and rewards associated with the ownership of the asset will be transferred during the lease, it will be categorized as a financing lease; if risks and rewards will not be transferred, it will be an operating lease. The Group will recognize assets held under financing leases on the balance sheet on the start date, and express them as lease payment receivable based on the net lease investment.

For contracts that include lease components and non-lease components, the Group will distribute the considerations in the contract using regulations from IFRS 15.

The Group uses direct-line basis or another systematic basis to recognize lease payments from operating leases as lease revenue. For variable lease payments not based on certain indicators or rates in operating leases, the Group will recognize them as lease revenue when they occur.

<u>Accounting treatment prior to January 1, 2019 is as follows:</u>

<u>The Group being a lessee</u>

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. Lease payments are apportioned between financing charges and reduction of the lease liability where the financing charges are determined by the fixed interest rate of the remaining balance of the liability and are recognized under 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 technical feasibility of completing the intangible asset has been achieved, and the said asset will be thus available for use or sale;
(2) The Company intends to complete the said asset to use or sell it;
(3) There is an ability to use or sell the said asset;
(4) How the said asset will generate highly likely economic benefits in the future. In addition, the Company can prove that the output of the intangible asset or the intangible asset itselve already exists in the market, or if the intangible asset is for internal use, the Company can prove the usefulness of the asset.
(5) The Company has sufficient technological, financial, and other resources to complete this development, and is able to use or sell the intangible asset.
(6) Expenditures during the development stage for the said asset 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.

<u>Specialized technology</u>
Technical skills obtained externally are granted 15 years of right-of-use and amortized on a straight-line basis. The technical skills developed are amortized on a straight-line basis during the expected future sales period of relevant projects.

<u>Trademark and licensing rights</u>
Trademark and franchise are granted 5 to 10 years of right-of-use and amortized on a straight-line basis.

<u>Brand</u>
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.

<u>Computer software</u>
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 – research and development costs	Trademark and licensing rights	Brand	Specialized technology	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, and Internal production	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

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

<u>Sales of goods</u>

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 period of the Group's product sale transactions is 60 days to 180 days. Most contracts are recognized as accounts receivable when the control of products is transferred and the right to receive the consideration unconditionally is obtained. These accounts receivables are usually short-term and do not contain significant financing components. For a small number of contracts, the products are transferred to customers but the right to receive the consideration unconditionally has not yet been obtained; thus, the said contracts are recognized as contract assets. The contract assets shall be additionally measured for their loss allowance based on the amount of the lifetime expected credit losses in accordance with IFRS 9. As for contracts where a part of the considerations is collected from customers upon signing the contracts, the Group assumes the obligations of providing products 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.

18. Post-employment benefits

The post-employment regulations of the Company 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 Company 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 Company 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 or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of 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 Company 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.

<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.

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 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 Company 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. Contingent considerations are deemed to be assets or liabilities, and subsequent changes in fair value will be recognized as changes in profit or loss for the current period or changes in other comprehensive income in accordance with IFRS 9. 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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The explanations are as follows:

   (1) 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.

(3) 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.

(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 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.

VI. Important Accounting Items

1. Cash and cash equivalents

	2019.12.31	2018.12.31
Cash on hand	$143	$839
Checks and demand deposits	348,531	364,339
Time deposits	190,448	163,262
Deposits in transit	-	44
Total	$539,122	$528,484

2. Financial assets at FVTPL

	2019.12.31	2018.12.31
Mandatorily measured at FVTPL:		
Convertible corporate bond with embedded derivative instruments	$-	$40
Non-current	$-	$40

Financial assets at FVTPL were not pledged.

3. Financial assets at fair value through other comprehensive income (FVTOCI)

	2019.12.31	2018.12.31
Investments in equity instruments at FVTOCI - non-current:		
Unlisted stocks		
Changgu Biotech Corporation	$2,083	$1,957
Taiwan Main Orthopaedic Biotechnology Co., Ltd.	1,052	1,526
Net	$3,135	$3,483

(1) Financial assets at FVTOCI were not pledged.
(2) As of December 31, 2019 and December 31, 2018, the investment in Changgu Biotech Corporation was NT$4,776 thousand, with 477,568 shares acquired, and the shareholding ratio was 19.26%.
(3) As of December 31, 2019 and December 31, 2018, the investment in Taiwan Main Orthopaedic Biotechnology Co., Ltd. by the subsidiary A-Spine Asia Co., Ltd. was NT$1,960 thousand, with 196,040 shares acquired, and the shareholding ratio was 3.77%.

4. Financial assets measured at amortized cost

	2019.12.31	2018.12.31
Time deposits	$12,704	$6,714
Less: Loss allowance	-	-
Total	$12,704	$6,714
Non-current	$12,704	$6,714

The Group has classified a part of financial assets as financial assets measured at amortized cost; for the information about loss allowance, please refer to Note 6. 21. Please refer to Note 8 for details of the guarantees provided and to Note 12 for information on credit risk.

5. Notes receivable

	2019.12.31	2018.12.31
Notes receivable - arising from operation	$3,041	$17,935
Less: Loss allowance	-	-
Total	$3,041	$17,935

Notes receivables were not pledged.

The Group assesses information related to impairment and loss allowance in accordance with IFRS 9. Please refer to Note 6 for details. 21. Please see Note 12 for information on credit risk.

6. Account receivables and account receivable - related party

	2019.12.31	2018.12.31
Accounts receivable	$505,428	$439,162
Less: Loss allowance	(9,204)	(7,323)
Subtotal	496,224	431,839
Account receivable - stakeholder	56,704	211,696
Less: Loss allowance	-	-
Total	$552,928	$643,535

Accounts receivables were not pledged.

Trade receivables are generally on 60-180 day terms. The total book values as of December 31, 2019 and December 31, 2018 were NT$562,132 thousand and NT$650,858 thousand, respectively. Please refer to Note 6 for detailed information on loss allowance for 2019 and 2018. 21. Please see Note 12 for information on credit risk.

7. Inventories

	2019.12.31	2018.12.31
Product	$64,703	$50,414
Finished product	710,883	717,307
Work-in-progress	249,298	246,280
Raw material	132,046	104,659
Materials and supplies in transit	120	-
Total	$1,157,050	$1,118,660

(1) The cost of inventories recognized as expenses by the Group is listed below:

Item	2019	2018
Cost of sales	$714,223	$709,244
Loss on inventory valuation (gain from price recovery)	(22)	7,256
Total	$714,201	$716,500

The Group's gain from price recovery of inventory in 2019 is the result of the consumption of inventories listed in loss on inventory valuation and discarding of part of slow moving inventories.

(2) No inventories aforementioned were pledged.

8. Investments accounted for using the equity method

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

	2019.12.31		2018.12.31	
Investee company name	Amount	Shareholding Ratio	Amount	Shareholding Ratio
Investments in associates:				
Shinva United Orthopedic Corporation	$564,805	49%	$378,707	49%

Investments in associates:

Information of the Group's significant associates is as follows:

Company name: Shinva United Orthopedic Corporation

Relation: The Company 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 investments' carrying amount:

	2019.12.31	2018.12.31
Current assets	$664,349	$366,288
Non-current Assets	651,699	526,947
Current liabilities	(88,322)	(25,312)
Non-current liabilities	-	-
Equity	1,227,726	867,923
Shareholding ratio of the Group	49%	49%
Subtotal	601,586	425,282
Elimination and adjustment due to inter-company transactions	(36,781)	(46,575)
Carrying amount of investments	$564,805	$378,707

	2019	2018
Operating Revenue	$155,471	$602
Net (loss) profit of continuing business units for this period	(39,029)	(11,622)
Other comprehensive gain or loss	-	-
Comprehensive income or loss for this period	(39,029)	(11,622)

The Company has invested CNY 30,000 thousand, equivalent to NT$149,844 thousand, to associates by way of technical value, which was recognized as longterm deferred income. Within the scope of non-related investors' interests in associates, starting from the service provision date, this amount is amortized on a straight-line basis for three years. As of December 31, 2019 and 2018, 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, 2019 and 2018, nor was there guarantee provided.

9. Property, plant and equipment

	December 31, 2019 (Note)	2018.12.31
Property, plant and equipment for self-use	$1,284,130	(Note)
Property, plant and equipment for operating lease	204,661	(Note)
Total	$1,488,791	(Note)

Note: The Company has adopted IFRS 16 as of January 1, 2019, and elected not to restate the comparative period pursuant to the transitional provisions of IFRS 16.

(1) Property, plant and equipment for self-use (application of IFRS 16)

	Land	Buildings	Machinery and equipment	Tooling equipment	Information equipment	Leasehold improvements	Other equipment	Total
Cost:								
2019.1.1	$174,589	$486,916	$549,117	$88,622	$13,348	$15,339	$454,740	$1,782,671
Additions	-	-	1,799	31,492	11,064	-	92,797	137,152
Disposals	-	-	(19,608)	(11,191)	(1,518)	-	(24,267)	(56,584)
Reclassification	-	-	28,026	812	-	-	10,827	39,665
Effect of exchange rate changes	-	-	-	-	(26)	(58)	(6,426)	(6,510)
2019.12.31	$174,589	$486,916	$559,334	$109,735	$22,868	$15,281	$527,671	$1,896,394
Depreciation and impairment:								
2019.1.1	$-	$44,615	$193,746	$31,993	$7,814	$9,650	$223,807	$511,625
Depreciation and amortization:	-	16,235	48,433	11,968	2,954	2,022	82,874	164,486
Disposals	-	-	(19,608)	(10,342)	(1,518)	-	(24,133)	(55,601)
Reclassification	-	-	-	-	-	-	(4,928)	(4,928)
Effect of exchange rate changes	-	-	-	-	(17)	(50)	(3,251)	(3,318)
2019.12.31	$-	$60,850	$222,571	$33,619	$9,233	$11,622	$274,369	$612,264
Net carrying amount:								
2019.12.31	$174,589	$426,066	$336,763	$76,116	$13,635	$3,659	$253,302	$1,284,130

Note: The Company has adopted IFRS 16 as of January 1, 2019, and elected not to restate the comparative period pursuant to the transitional provisions of IFRS 16.

(2) Property, plant and equipment for self-use (application of IFRS 16)

	Other equipment
Cost:	
2019.1.1	$247,429
Additions	71,396
Disposals	(10,244)
Effect of exchange rate changes	(2,305)
2019.12.31	$306,276
Depreciation and impairment	
2019.1.1	$51,003
Depreciation	61,493
Disposals	(10,244)
Effect of exchange rate changes	(637)
2019.12.31	$101,615
Net carrying amount:	
2019.12.31	$204,661

(3) Property, plant and equipment for self-use (application of the regulation prior to IFRS 16)

	Land	Buildings	Machinery and equipment	Tooling equipment	Information equipment	Leasehold improvements	Other equipment	Total
Cost:								
2018.1.1	$174,589	$470,856	$472,820	$76,151	$11,640	$11,477	$492,014	$1,709,547
Additions	-	3,699	21,141	21,459	2,249	3,656	210,299	262,503
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	$2,030,100
Depreciation and impairment:								
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
Net carrying amount:								
2018.12.31	$174,589	$442,301	$355,371	$56,629	$5,534	$5,689	$427,359	$1,467,472

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

(5) For gaurantees provided based on property, plant and equipment, please refer to Note 8.

10. Intangible assets

	Computer Software cost	Specialized technology	Development expenditure	Trademark and Franchise	Goodwill	Brand	Total
Cost:							
2019.1.1	$19,914	$7,650	$77,857	$2,010	$292,891	$107,940	$508,262
Additions - deveplोment by internal units	-	-	40,184	-	-	-	40,184
Additions - separate acquisition	7,095	-	-	-	-	-	7,095
Reclassification	-	3,097	(3,097)	-	-	-	-
Others	(5,058)	-	-	-	-	-	(5,058)
Effect of exchange rate changes	(69)	-	-	(16)	-	-	(85)
2019.12.31	$21,882	$10,747	$114,944	$1,994	$292,891	$107,940	$550,398
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 rate changes	72	-	-	101	-	-	173
2018.12.31	$19,914	$7,650	$77,857	$2,010	$292,891	$107,940	$508,262

Amortization and impairment:							
2019.1.1	$8,648	$43	$14,147	$938	$-	$12,593	$36,369
Amortization and impairment:	5,689	755	4,815	401	-	7,196	18,856
Disposals	-	-	-	-	-	-	-
Others	(5,058)	-	-	-	-	-	(5,058)
Effect of exchange rate changes	(10)	-	-	(10)	-	-	(20)
2019.12.31	$9,269	$798	$18,962	$1,329	$-	$19,789	$50,147
2018.1.1	$8,158	$-	$9,332	$509	$-	$5,397	$23,396
Amortization and impairment:	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
Net carrying amount:							
2019.12.31	$12,613	$9,949	$95,982	$665	$292,891	$88,151	$500,251
2018.12.31	$11,266	$7,607	$63,710	$1,072	$292,891	$95,347	$471,893

11. 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

	2019.12.31	2018.12.31
Goodwill	$292,891	$292,891

The recoverable amount of the ASA cash generating unit has been determined based on the fair value less costs of disposal, on December 31, 2019. Fair value is evaluated according to the market approach. Based on the results of this analysis, the management assessed that there was no sign of impairment of the goodwill on December 31, 2019.

The recoverable amount of the ASA cash-generating unit as of December 31, 2018 has been determined based on the value in use. The value in use 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 relevant products. The pre-tax discount rate used for cash flow forecasts was 13.97%, and cash flows following the five-year period was extrapolated at a growth rate of 5%. This growth rate is equivalent to the long-term average growth rate of the industry. Based on the results of this analysis, the management assessed that there was no sign of impairment of the goodwill on December 31, 2018.

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 that the market share of the Group will be 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.

12. Short-term loans

	2019.12.31	2018.12.31
Unsecured bank loans	$199,880	$973,982
Secured bank loans	-	-
Total	$199,880	$973,982
Interest rate range (%)	1.1500-2.8800	0.7928-3.8500

As of December 31, 2019 and 2018, the Group's unused short-term loan facilities were NT$1,685,000 thousand, US$1,500 thousand, NT$666,381 thousand, and US$1,500 thousand; the unused short-term notes and bills payable were all NT$150,000 thousand, respectively, while the unused long-term loan facilities were NT$425,000 thousand and NT$225,000 thousand.

13. Short-term notes and bills payable

	2019.12.31	2018.12.31
Short-term notes and bills payable	$-	$50,000
Less: Discounts on commercial notes payable	-	(16)
Net	$-	$49,984
Interest rate range (%)	-	0.5200

14. Financial liabilities measured at FVTPL

	2019.12.31	2018.12.31
Mandatorily measured at FVTPL:		
Convertible bonds with embedded derivative financial instruments	$3,250	$-
Non-current	$3,250	$-

15. Corporate bonds payable

	2019.12.31	2018.12.31
Domestic unsecured bonds payable	$869,984	$391,223
Less: Liabilities due within one year	(369,813)	-
Long-term domestic convertible bonds payable	$473,171	$391,223

<u>Domestic convertible bonds payable</u>

	2019.12.31	2018.12.31
Liability elements:		
Nominal amount of domestic convertible bonds payable	$900,000	$400,000
Converted amount	-	-
Discount on domestic convertible bonds payable	(30,016)	(8,777)
Subtotal	869,984	391,223
Less: Liabilities due within one year	(396,813)	-
Net	$473,171	$391,223
Embedded derivatives - assets	$-	$40
Embedded derivatives - liabilities	$3,250	$-
Equity elements	$42,900	$16,600

(1) On August 11, 2017, the Company issued the second round of domestic unsecured convertible bonds with the face interest rate 0%. The convertible bonds are analyzed based on the contract clauses, and the composition elements include primary debts, embedded derivatives (option of redemption for the issuer), and equity elements (bondholders have the option of requesting to convert into issuer's ordinary shares). Primary issuance clauses are as follows:

Total amount of issuance: NT$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 Company'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 Company 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 Company'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 Company.

B. Conversion period: From November 12, 2017 to August 11, 2020, the bond holders can request for conversion into the Company's common stocks instead of cash redemption by the Company.

C. Conversion price and adjustment: The conversion price upon issuance was set at NT$77.30 per share. Where incidents occur and the Company'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, 2019 and 2018, the conversion price was NT$70.30 and NT$73.40 per share, respectively.

D. Redemption on maturity date: The Company'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, 2019.

(2) On September 10, 2019, the Company issued the third round of domestic unsecured convertible bonds with the face interest rate 0%. The convertible bonds are analyzed based on the contract clauses, and the composition elements include primary debts, embedded derivatives (option of redemption for the issuer, and an option of requesting the issuer's redemption), and equity elements (bondholders have the option of requesting to convert into issuer's ordinary shares). Primary issuance clauses are as follows:

Total amount of issuance: NTD 500,000 thousand. Face amount per equity: NTD 100 thousand. The issuance is in full carrying amount.

Period of Issuance: September 10, 2019 to September 10, 2024.

Critical clauses for redemption:

A. On the next day after the convertible bonds have been issued for three full month (Dec. 11, 2019) till 40 days prior to the due date (Aug. 1, 2024), If the closing price of the Company's common stock at the securities firm’s business premises exceeds the conversion price by 30 percent or more for 30 consecutive business days, the Company may issue a notice to reclaim the outstanding the convertible bonds in cash by the nominal amount of the bonds.

B. On the next day after the convertible bonds have been issued for three full month (Dec. 11, 2019) till 40 days prior to the due date (Aug. 1, 2024), if the Company's outstanding convertible bonds are lower than NT$50,000 thousand in the balance (10% of the original issue amount), the Company shall announce to reclaim all the outstanding convertible bonds in cash by the nominal amount of the bonds.

C. If the bondholder fails to respond to the Company'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.

Critical clauses for redemption:

The dates of the convertible corporate bonds having issued for three years and four years (September 10, 2022 and September 10, 2023) are the base date of redemption. The bondholders may request the Company to redeem the convertible corporate bonds held in cash by the nominal amount of the bonds.

Conversion methods:

A. Converted target: Common stocks of the Company.

B. Conversion period: From December 11, 2019 to September 10, 2024, the bondholders may request for conversion into the Company's ordinary shares to replace the cash payout made by the Company.

C. Converted price and adjustment: The converted price upon issuance was set as NT$51.50 per share. When it comes to the converted price adjustment in accordance with the issuance clauses for the Company's ordinary shares, the converted price is subject to change in accordance to the formula stipulated in the issuance clauses. On December 31, 2019, each share carried the value of NTD 51.50.

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

The bonds have not been converted as of December 31, 2019.

16. Long-term loans

Details of long-term loans for the years ended December 31, 2019 and 2018 are as follows:

Creditor	2019.12.31	Interest rate (%)	Repayment period and method
Taiwan Cooperative Bank-Hsinchu Science-based Industrial Park Branch	$43,886	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.
Bank of Taiwan	87,850	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.
"	131,373	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 in 52 installments; the remaining principal will be repaid in a lump sum when due.
Mega International Commercial Bank - Nei Hu Branch	71,476	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.
〃	4,524	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	339,109		
Less: long-term loans due within one year	(43,714)		
Net	$295,395		

Creditor	2018.12.31	Interest rate (%)	Repayment period and method
Taiwan Cooperative Bank-Hsinchu Science-based Industrial 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,

Creditor	2018.12.31	Interest rate (%)	Repayment period and method
			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 Company has a revolving facility with a 90-day extension option.
Mega International Commercial Bank - Nei Hu Branch	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		

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.

17. Post-employment benefits

Defined contribution plan

The Company's post-employment regulations in accordance with the "Labor Pension Act" belong to the defined contribution plan. According to the Act, the Company and its domestic subsidiaries' monthly contribution rate for employees' pension shall not be lower than 6% of employees' monthly salary. The Company and its domestic subsidiaries have complied with the 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 the years ended December 31, 2019 and 2018 are NT$32,515 thousand and NT$26,870 thousand, respectively.

Defined benefits plan

The Company'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 Company contributes 2% of total salaries as the pension fund on a monthly basis, which is deposited in the special account of Bank of Taiwan, in the name of the Supervisory Committee of Labor Pension Reserve. Also, the Company would assess the balance in the aforementioned labor pension reserve account 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 Company 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 Company 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, 2019, the Company's defined benefits plan has been estimated to contribute NT$8,296 thousand in the following year.

For the years ended on December 31, 2019 and December 31, 2018, the Company's defined benefits plans are expected to due on 2034, and 2033.

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

	2019	2018
Current service cost	$345	$331
Net interest of net defined benefit liabilities	122	234
Total	$467	$565

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

	2019.12.31	2018.12.31	2018.1.1
Present value of defined benefit obligations	$50,991	$57,045	$54,629
Fair value of plan assets	(48,425)	(45,444)	(37,773)
Net defined benefit liabilities on the book	$2,566	$11,601	$16,856

Reconciliation of net defined benefit liabilities:

	Defined benefit Present value of obligations	Plan assets Fair value	Net defined benefit liabilities
2018.1.1	$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	-	-	-
Subtotal	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 assets	-	(874)	(874)
Subtotal	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
Current service cost	345	-	345
Interest expense (income)	599	(477)	122
Previous service cost and settlement gains or losses	-	-	-
Subtotal	57,989	(45,921)	12,068
Remeasurements of defined benefit liabilities/assets:			
Actuarial gains or losses from demographic assumptions	-	-	-
Actuarial gains or losses from changes in financial assumptions	1,836	-	1,836
Experience adjustments	(1,577)	-	(1,577)
Remeasurements of defined benefit assets	-	(1,465)	(1,465)
Subtotal	58,248	(47,386)	10,862
Benefits paid	(7,257)	7,257	-
Employer contributions	-	(8,296)	(8,296)
2019.12.31	$50,991	$(48,425)	$2,566

Following assumptions are used to determine the Company's defined benefit plan:

	2019.12.31	2018.12.31
Discount rate	0.74%	1.05%
Expected salary increase rate	3.00%	3.00%

Sensitivity analysis of each significant actuarial assumption:

	2019		2018	
	Defined benefit Obligation increases	Defined benefit Obligation decreases	Defined benefit Obligation increases	Defined benefit Obligation decreases
Discount rate increases by 0.5%	$-	$2,920	$-	$3,507
Discount rate decreases by 0.5%	3,150	-	3,792	-
Expected salary increases by 0.5%	3,063	-	3,698	-
Expected salary decreases by 0.5%	-	2,871	-	3,459

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) Share capital

As of December 31, 2019 and 2018, the Company's authorized share 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.

<u>Common stocks</u>

Due to the fact that the Company's restricted employee shares did not meet the vesting conditions, the Board of Directors resolved to cancel 12,000 shares on March 20, 2018 with the base date of capital reduction set on April 9, 2018, and the registration of the changes were completed on April 18, 2018. 518 thousand shares from the Company'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$10. The amount of capital increase was NT$7,500 thousand with the 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.

Due to the fact that the Company's restricted employee shares did not meet the vesting conditions, the Board of Directors resolved to cancel 18,000 shares, 6,000 shares, and 6,000 shares on May 2, 2019, August 6, 2019 and August 1, 2019 with the base dates of capital reduction set on May 13, 2019, August 15, 2019, and November 15, 2019, and the registration of the changes were completed on May 27, 2019, August 21, 2019, and November 28, 2019, respectively.

Preferred stock

On September 17, 2019, the Board of Directors resolved that the Company launch a capital increase to issue type A preferred stock in a total amount of NT$520,000 thousand, with a par value of NT$10 per share and a total of 10,000 thousand shares shares. The issue price per share was NT$52. This cash capital increase case was reported and registered with FSC, which issued Financial Supervisory Commission Official Letter No. Zheng-Fa-1080325924 on August 26, 20 as a confirmation, and the base date of capital increase was set at October 18, 2019. The relevant legal registration procedures have been completed and classified under equity. A excerpt of relevant rights and obligations is as follows:

A. The annual rate of the preferred stock is 4.5% (five-year IRS rate of 0.7162% plus a fixed rate of 3.7838%), calculated at the issue price per share. The five-year IRS rate will be reset on the next business day after the fifth year from the issue date and every five years thereafter. The pricing base date of interest rate reset is two business days of Taipei Exchange prior to the date of interest rate reset, and the five-year IRS rate is the arithmetic mean of the prices of Reuter's "PYTWDFIX" and "COSMOS3" of the five-year IRS at 11:00 a.m. on the pricing base date of interest rate reset (also a business day of Taipei Exchange). If the aforesaid pricing cannot be obtained on the pricing base date of interest rate reset, the Company shall determine it based on the principle of good faith and reasonable market conditions.

B. If the Company has earnings, except for taxes for the year, it shall make up for the losses for the previous years first, appropriate a fund as legal capital reserve according to the laws and regulations, and then appropriate a fund as or reverse the special capital reserve according to the Articles of Incorporation. If there is still a surplus, it shall allot the distributable dividend for preferred shares of the year on priority.

C. The Company has discretion over the distribution of preferred stock dividends. If the Company did not generate any or sufficient profits during the year for the distribution of preferred stock dividends, it may resolve not to pay out the dividends and preferred stockholders shall not have the right to object. The preferred shares issued are non-cumulative, i.e. the undistributed dividends or shortages in dividends distributed shall not be accumulated and paid in subsequent years when profits are generated.

D. Special stock dividends will be distributed in cash once a year. After the financial reports have been acknowledged in the annual general meeting of the shareholders, the Board of Directors shall set the payment date of the distribution of the payable preferred stock dividends for the previous year. The number of dividends issued in the year of issuance and the year of redemption is calculated based on the actual number of days the stock has been issued in the year, and the dividends distributed will be recognized in the dividend statement.

E. Shareholders of preferred shares shall not participate in the distribution of surplus and capital surplus in cash or for capitalization related to ordinary shares, except for receiving dividends as specified above.

F. Shareholders of preferred shares do not have the right to require the Company to reclaim the preferred shares held by them, but the Company may, at any time, make announcement and sent a letter to the shareholders of this preferred stock a "preferred share reclaiming notice" which expires in 30 days, to reclaim all or part of the preferred shares by the actual issue price on the next day after the stock has been issued for five years Unredeemed preferred shares shall continue to be subject to the rights and obligations of the aforementioned issuance terms. In the year the preferred shares are reclaimed, if the shareholders' meeting of the Company resoves to distribute dividend, the distributable dividend up to the date of redemption shall be calculated according to the actual number of days the stock has been issued in the year.

G. Preferred stockholders have a higher claim to the Company's residual properties than common stockholders. Different types of preferred stocks issued by the Company grant holders the same rights to claims, and preferred stockholders stay subordinate to general creditors. The amount preferred stockholders are entitled to is capped at the number of outstanding preferred stocks at the time of distribution, which are calculated at the issuance price.

H. Preferred stockholders have neither voting nor election rights. However, they may be elected as Directors or Supervisors. They have voting rights in preferred stockholders' meetings or with respect to agendas associated with the rights and obligations of preferred stockholders in shareholders' meetings.

I. This preferred stock cannot be converted within one year from the date of issuance (October 18, 2019). From the day after the expiration of one year (October 19, 2020), the shareholders of this preferred stock may apply for conversion of part or all of the preferred shares held by them to ordinary shares with one preferred share in exchange for one ordinary share (the conversion ratio is 1: 1) during the conversion period. The smallest unit of conversion is one share. After the preferred shares are converted into ordinary ones, the rights and obligations borne are the same as those of the latter. The payment of the annual dividends for the preferred shares converted shall be calculated based on the number of actual issuiance days in proportion to that of the total year. Should any shares be converted into ordinary shares before the base date of dividend distribution, the holders shall not have the right to the distribution of the dividends of preferred shares in the year but may participate in the distribution of ordinary shares surplus and capital surplus.

J. When the Company issues new shares for cash capital increase, the shareholders of this preferred stock have the same subscription right to the new shares as the ordinary shareholders.

As of December 31, 2019 and 2018, the Company's authorized share capital was NT$1,500,000 thousand and NT$1,000,000, thousand, respectively, and had issued share capital of ordniary shares in the amount of NT$804,209 thousand and NT$804,509 thousand, respectively. The share capital of preferred shares issued was NT$100,000 thousand and NT$0, respectively. The par value of the ordinary stock is NT$10 per share, and 80,421 thousand shares and 80,451 thousand shares have been issued, respectively. The par value of the preferred stock is NT$10 per share, and 10,000 thousand shares and 0 share have been issued, respectively.

(2) Capital surplus

	2019.12.31	2018.12.31
Issuance premium	$1,586,295	$1,228,634
Stock options – convertible corporate bonds	42,900	16,600
Issuance of restricted employee shares	32,688	34,050
Difference between the proceeds received from acquisition or disposal of a subsidiary and its carrying amount	164,332	-
Others	1,468	1,252
Total	$1,827,683	$1,280,536

According to laws, capital surplus shall not be used except for making good the deficit of the Company. 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 Company 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.

The Company's annual general meeting of shareholders on June 19, 2019 resolved to issue cash of NT$59,839 thousand from capital surplus.

Please refer to Note 6.28 for more information about the difference between the proceeds received from acquisition or disposal of a subsidiary and its carrying amount

(3) Earnings distribution and dividend policy

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

A. Payment of all taxes and dues

B. Offset 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 Company's dividend policy shall consider the Company's current and future investment environment, capital demands, domestic and foreign competition situations and capital budgets, in order to safeguard the shareholders' interests and find a balance between dividends and the Company'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 Company 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 Company 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 Company elects to transfer to retained earnings by application of the exemption under IFRS 1, "First-time Adoption of IFRS", the Company 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 Company 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 Company'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 Company did not use, dispose, or reclassify relevant assets from January 1 to December 31, 2019 and 2018, there is no reversal of special capital reserve to undistributed earnings.

Details of the 2019 and 2018 earnings appropriation and distribution and dividends per share as approved by the Board of Directors meeting and the annual general meeting of shareholders on March 18, 2019 and June 19, 2019, respectively, are as follows:

	Appropriation and Distribution of Earnings		Dividend per share (NTD)	
	2019	2018	2019	2018
Legal capital reserve	$7,617	$12,755		
Special capital reserve	41,655	11,850		
Cash dividend of common stock	22,086	101,063	$0.275	$1.256
Dividend of preferred stock	4,808	-	0.481	-

Note: It is calculated based on the number of days in circulation in 2019 (75 days) and the rate of dividend of 4.5%.

Please refer to Note 6.23 for further details on the estimation and recognition foundation of employees' compensation and remuneration to directors and supervisors.

(4) Non-controlling interests

	2019	2018
Beginning balance	$18,540	$13,209
Net loss attributable to non-controlling interests	(16,798)	(25,062)
Other comprehensive income attributable to non-controlling interests:		
Exchange difference of financial statements of foreign operations	1,571	324
Unrealized valuation loss (gain) on investments in an equity instrument measured at FVTOCI	(216)	-
Difference between the proceeds received from acquisition or disposal of a subsidiary and its carrying amount	93,197	-
New shares of subsidiaries not subscribed in proportion of shares held	13,625	(1,903)
Capital increase of subsidiaries	5,398	31,972
Cash dividends distributed by subsidiaries	(8,115)	-
Ending balance	$107,202	$18,540

19. 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 Company'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 Company shall not be transferred within the three-year vesting period, however, the holders are still entitled to dividend distribution. The Company's Board of Directors resolved to cancel 12,000 shares on March 20, 2018. As of December 31, 2018, the Company had issued 530 thousand shares. 518 thousand shares from the Company's restricted employee shares expired on July 26, 2018.

The Company'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 Company shall not be transferred within the three-year vesting period, however, the holders are still entitled to dividend distribution. The Company's Board of Directors resolved to cancel 18,000 shares, 6,000 shares, and 6,000 shares on May 2, 2019, August 6, 2019, and November 7, 2019, respectively. As the Company's restricted employee shares did not meet the vestomg conditions, as of December 31, 2019 and December 31, 2018, the Company had issued 720 shares and 750 thousand shares.

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 Company 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 Company is entitled by law to retrieve the restricted employee shares and cancel them.

(2) The Group's subsidiaries reserve the employee subscription plan for cash capital increase according to the Company Act
The Board of Directors meeting of A-SPINE Asia Co., Ltd., subsidiary of the Group, resolved, on October 31, 2018, to issue 1,000 thousand common shares for cash capital increase at a par value of NT$10. Shares are to be issued at a premium of NT$40 per share. The Company reserves 10% of the total number of new shares issued in accordance with Paragraph 1, Article 267 of the Company Act, with a total of 100 thousand shares for employee subscription.

Information on the aforementioned share-based payment is as follows:

Grant date of the stock option certificate	Total number of units exercised (share)	Exercise price per unit (NT$)
2018.10.31	74,000	$40

For the above-mentioned share-based payment plan, the pricing model and assumptions used are as follows:

	2018
Expected volatility (%)	24.26
Risk-free interest rate (%)	0.40
Expected duration of stock option(days)	15
Weighted-average stock price (NT$)	59.86
Pricing model used	Black-Scholes option valuation model

The expected duration of the stock option is estimated based on the subscription period determined by the Board of Directors. The expected volatility is the historical volatility of the period in which the hypothesis is similar to the duration of the stock options, which represents the future trend, but may not necessarily be consistent with future actual results.
The detailed information of the employee stock option plan of the Group's subsidiary is as follows:

	2018	
	Number of outstanding stock options (unit: thousand)	Weighted average Exercise prices (NT$)
Outstanding stock options on January 1st	-	-
Stock options granted in the current period	100	40
Stock options in the current period (Note)	(74)	40
Stock options that are overdue in the current period	(26)	40
Outstanding stock options on December 31st	-	-
Stock options that can be exercised on December 31st	-	-

Note: The weighted average share price on the share option exercise date is NT$59.86.

In accordance with the requirements of IFRS 2- Share-based Payment, the cost of the compensation recognized based on the fair value of equity products given on the date the products were given was NT$1,470 thousand.

(3) The expense recognized for employee share-based payment plans is shown in the following table:

	2019	2018
Plan of restricted employee shares	$12,952	$10,115
Employee subscription plan reserved for cash capital increase	-	1,470
Total	$12,952	$11,585

20. Operating Revenue

	2019 (Note)	2018
Sale of goods	$2,436,700	$2,330,991
Other operating revenues	-	1,256
Total	$2,436,700	$2,332,247

Revenue from the sale of goods was generated by a single segment and recognized at a point of time.

<u>Contract balance</u>

Contract liability - current

	2019.12.31	2018.12.31
Sale of goods	$4,420	$12,985

The significant changes in the contract liability balance of the Group from January 1 to December 31, 2019 and 2018 are as follows:

	2019	2018
Beginning balance is recognized as revenue in the current period	$(12,367)	$(11,496)
Increase in advance payments received in the current period (after deduction of revenue generated and recognized in the current period)	3,802	12,307

21. Expected credit loss (gain)

	2019	2018
Operating expenses - Expected credit loss (gain)		
Notes receivable	$-	$-
Accounts receivable	2,025	(3,099)
Refundable deposits	(1,000)	-
Total	$1,025	$(3,099)

For information on credit risk, please refer to Note 12.

The Group 's financial assets measured at amortization cost were assessed on December 31, 2019 and December 31, 2018 as those with low credit risk(the assessment results were the same as those on January 1, 2018), so the loss allowance is measured based on 12-month expected credit losses (loss rate of 0%).

The Group 's receivables (including notes receivable and accounts receivable) are all measured for the loss allowance based on the lifetime expected credit losses. Relevant description of assessing the amount of loss allowance on December 31, 2019 and December 31, 2018 is 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:

2019.12.31

		Number of days overdue				
	Not past due (Note)	Within 120 days	121-150 days	151-180 days	181 days or above	Total
Gross carrying amount	$499,615	$54,280	$1,074	$1,171	$9,033	$565,173
Loss ratio	0%	0%	5%	10%	100%	
Lifetime expected credit losses	-	-	54	117	9,033	9,204
Total	$499,615	$54,280	$1,020	$1,054	$-	$555,969
Carrying amount						$555,969

2018.12.31

		Number of days overdue				
	Not past due (Note)	Within 120 days	121-150 days	151-180 days	181 days or above	Total
Gross carrying amount	$615,111	$46,168	$162	$41	$7,311	$668,793
Loss ratio	0%	0%	5%	10%	100%	
Lifetime expected credit losses	-	-	8	4	7,311	7,323
Total	$615,111	$46,168	$154	$37	$-	$661,470
Carrying amount						$661,470

Note: None of the Group's notes receivable is past due.

The changes in the Group's loss allowance for notes and accounts receivables in 2019 and 2018 are as follows:

	Notes receivable	Accounts receivable
2019.1.1	$-	$7,323
Increase in this period	-	2,025
Write off	-	(121)
Exchange differences	-	(23)
2019.12.31	$-	$9,204
2018.1.1	$-	$10,453
Amount reversed in this period	-	(3,099)
Write off	-	(39)
Exchange differences	-	8
2018.12.31	$-	$7,323

A subsidiary of the Group is expected to reclaim the refundable deposit, which was listed as impairment as it could not be reclaimed in the previous year, in 2020, so the impairment loss listed in the previous year was reversed in 2019, and the gain of reversing the expected credit impairment loss was recognized in the amount of NT$1,000 thousand.

22. Lease

(1) The Group as a lessee (applicable for disclosures related to IFRS 16)

The Group leases a number of different assets, including property (land, housing, and buildings) and transportation equipment. The lease period of each contract ranges from 2 years to 49 years.

The following is a description of the leases' impacts on the Group's financial position, financial performance, and cash flow:

A. Amount recognized in the balance sheet

(a) Right-of-use assets

Carrying amount of right-of-use assets

	2019.12.31	2018.12.31
Land	$152,386	(Note)
Buildings	41,142	(Note)
Transportation equipment	4,212	(Note)
Total	$197,740	(Note)

Note: The Group has adopted IFRS 16 since January 1, 2019, and chose not to restate the comparative period based on the transitional provisions of the standards.

In 2019, the Group added NT$29,539 thousand to the category of right-of-use assets.

(b) Lease liabilities

	2019.12.31	2018.12.31
Lease liabilities	$198,677	(Note)
Current	$22,501	(Note)
Non-current	$176,176	(Note)

Please refer to Note 6 for the interest expenses of the Group's 2019 lease liabilities. 24 (3) Please refer to Note 12 for detailed information on finance costs and analysis of the maturity of lease liabilities as of December 31, 2019. 5. Liquidity risk management

Note: The Group has adopted IFRS 16 since January 1, 2019, and chose not to restate the comparative period based on the transitional provisions of the standards.

B. Amount recognized in the statement of comprehensive income

Depreciation of right-of -use assets

	2019	2018
Land	$7,085	(Note)
Buildings	15,161	(Note)
Transportation equipment	3,020	(Note)
Total	$25,266	(Note)

Note: The Group has adopted IFRS 16 since January 1, 2019, and chose not to restate the comparative period based on the transitional provisions of the standards.

C. Revenues and expenses related to the lessee and lesse activities

	2019	2018
Short-term lease expense	$161	(Note)
Leases expense of low-value assets (excluding short-term leases expense of low-value assets)	1,405	(Note)
Revenue from sublease of right-of-use asset	1,381	(Note)

Note: The Group has adopted IFRS 16 since January 1, 2019, and chose not to restate the comparative period based on the transitional provisions of the standards.

As of December 31, 2019, the Company had no commitments to short-term lease portfolio.

D. Cash outflow related to the lessee and lease activities

The Group's total cash outflow to leases in 2019 was in the amount of NT$28,245 thousand.

(2) The Group as lessee - operating leases (applicable for disclosures related to IAS 17)

The Group has entered into commercial leases on plant, office and parking space. These leases have an average tenure of two 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, 2019 and 2018 are as follows:

	2019.12.31	2018.12.31
Not later than one year	(Note)	$23,525
Later than one year and not later than five years	(Note)	57,998
Later than five years	(Note)	163,396
Total	(Note)	$244,919

Recognition of operating lease expenses is as follows:

	2019	2018
Minimum lease payments	(Note)	$23,349

Note: The Group has adopted IFRS 16 since January 1, 2019, and chose not to restate the comparative period based on the transitional provisions of the standards.

(3) The Group as lessor (applicable for disclosures related to IFRS 16)

For the Group's relevant disclosures of its own property, plant and equipment, please refer to Note 6.9 for details. The Group's own real estate, plant and equipment are classified as operating leases because almost all risks and rewards attached to the ownership of the underlying assets have not been transferred.

	2019	2018
Lease revenue recognized from operating leases		
Relevant income from variable lease payments not dependent on index or rate changes	$2,948	(Note)

Note: The Group has adopted IFRS 16 since January 1, 2019, and chose not to restate the comparative period based on the transitional provisions of the standards.

(4) The Group as lessor - operating lease (applicable for disclosure related to IAS 17)

The contingent rent recognized as income in 2018 was in the amount of NT$76,000 thousand.

Note: The Group has adopted IFRS 16 since January 1, 2019, and chose not to restate the comparative period based on the transitional provisions of the standards.

23. Summary statement of employee benefits, depreciation and amortization expense by function:

Function / Type	2019			2018		
	Fees that belong to operational costs	Fees that belong to operational expenses	Total	Fees that belong to operational costs	Fees that belong to operational expenses	Total
Employee benefits expense						
Salaries expense	$235,872	$391,865	$627,737	$243,721	$389,508	$633,229
Labor and health insurance premiums	25,120	34,554	59,674	23,484	33,508	56,992
Pension expense	12,188	20,794	32,982	11,678	15,757	27,435
Other employee benefits expense	9,474	6,132	15,606	9,787	6,013	15,800
Depreciation expenses	80,831	170,414	251,245	68,971	128,940	197,911
Amortization expense	246	18,610	18,856	-	16,871	16,871

The Company'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 Company'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 2019, the Company allocated 12% and 3% of the profits as compensation to employees and remuneration to Directors and Supervisors in the amounts of NT$12,367 thousand and NT$3,092 thousand recognized under salary expense, respectively. If the Company's Board of Directors resolves to distribute employee compensation with shares, the closing price of the day before the Board of Directors' resolution shall be adopted as the basis for calculating the number of shares distributed. If there is any discrepancy between the estimated amount and the actual distribution amount resolved by the Board of Directors, it will be listed as profit/loss for the next year. On March 19, 2020, the Company's Board of Directors resolves to distribute compensation to employees and remuneration to Directors and Supervisors distributed in the amounts of NT$12,367 thousand and NT$3,092 thousand, respectively. T

In 2018, the actual amounts of compensation to employees and remuneration to Directors and Supervisors distributed were NT$17,025 thousand and NT$4,256 thousand, respectively. There was no material difference between the amount paid and the amount recognized as expenses in the 2018 financial reports.

24. Non-operating income and expenses

(1) Other income

	2019	2018
Interest Income	$3,842	$2,995
Rent income	4,329	76
Subsidy income	6,097	101
Indemnity income	2,466	270
Exhibition participation incom	5,758	5,486
Other income - others	44,066	37,046
Total	$66,558	$45,974

(2) Other gains and losses

	2019	2018
Gains (loss) on financial assets at FVTPL (Note)	$(355)	$5,277
Gain (loss) on disposal of property, plant and equipment	(844)	(734)
Foreign exchange gain (loss), net	(3,195)	4,796
Other expenses	(351)	(168)
Total	$(4,745)	$9,171

Note: It was generated because financial assets were mandatorily measured at FVTPL.

(3) Finance costs

	2019	2018
Interest on bank loans	$(22,789)	$(21,292)
Interest on bonds payable	(7,460)	(5,510)
Interest on lease liabilities	(3,134)	(Note)
Total	$(33,383)	$(26,802)

Note: The Group has adopted IFRS 16 since January 1, 2019, and chose not to restate the comparative period based on the transitional provisions of the standards.

25. Components of other comprehensive income

Components of other comprehensive income for the year ended December 31, 2019 are as follows:

	Arising during the period	Current Reclassification adjustment	Others Comprehensive income	Income tax Gains (expenses)	After-tax amount
Items not reclassified to profit or loss:					
Remeasurement of defined benefit plans	$1,206	$-	$1,206	$-	$1,206
Unrealized valuation gain (loss) on investments in equity instruments at FVTOCI	(737)	-	(737)	-	(737)
Items that might be reclassified to profit or loss:					
Exchange difference of financial statements of foreign operations	(18,047)	-	(18,047)	-	(18,047)
Shares of other comprehensive income of associates and joint ventures accounted for using the equity method	(21,516)	-	(21,516)	-	(21,516)
Total	$(39,094)	$-	$(39,094)	$-	$(39,094)

Components of other comprehensive income for the year ended December 31, 2018 are as follows:

	Arising during the period	Current Reclassification adjustment	Others Comprehensive income	Income tax Gains (expenses)	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	(3,253)	-	(3,253)	-	(3,253)
Items that might be reclassified to profit or loss:					
Exchange difference of financial statements of foreign operations	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)

26. Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company'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, 2019 and 2018 are as follows:

Income tax expense recognized in profit or loss

	2019	2018
Current income tax expense (benefit):		
Current income tax expense	$48,363	$28,871
Adjustments on current income tax of prior periods	(12,725)	(4,775)
Deferred income tax expense (benefit):		
Deferred income tax expense (gains) relating to its original generation from the temporary differences and reversal	(16,683)	(7,042)
Deferred income tax relating to changes in tax rates or new taxes	-	(12,097)
Income tax expense (benefit)	$18,955	$4,957

Income tax recognized in other comprehensive income

	2019	2018
Deferred income tax expense (benefit):		
Remeasurements of defined benefit plans	$-	$-
Unrealized valuation gain (loss) on investments in equity instruments at FVTOCI	-	-
Exchange difference of financial statements of foreign operations	-	-
Shares of other comprehensive income of 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:

	2019	2018
Profit before tax from continuing operations	$90,741	$107,449
Tax at the domestic tax rates applicable of profits in the country of main operation	$31,726	$36,965
Tax effect of revenues exempt from taxation	(8,715)	(8,440)
Tax effect of expenses not deductible for tax purposes	3,498	8,723
Tax effect of deferred income tax assets/liabilities	5,167	(15,655)
Income tax on unappropriated retained earnings	4	236
Deferred income tax relating to changes in tax rates or new taxes	-	(12,097)
Adjustments on current income tax of prior periods	(12,725)	(4,775)
Total income tax expense (benefit) recognized in profit or loss	$18,955	$(4,957)

Balance of deferred income tax assets (liabilities) related to the following items:

2019

	Beginning balance	Recognized in profit or loss	Recognized in other Comprehensive income	Exchange differences	Ending balance
Temporary differences					
Unrealized transactions between Group entities	$57,916	$(8,504)	$-	$-	$49,412
Unrealized exchange gain (loss) - parent company	657	2,618	-	-	3,275
Unrealized exchange gain (loss) - subsidiaries	(15)	198	-	-	183
Long-term deferred income	15,958	(1,273)	-	-	14,685
Excess of allowance for bad loans	8	-	-	-	8
Provision for inventory valuation loss	10,801	(450)	-	-	10,351
Unrealized bonus for unused compensated absences	245	203	-	-	448
Tax differentials in depreciation expenses	(1,106)	(6,706)	-	107	(7,705)
Fair value adjustment resulting from business combination	(16,209)	1,223	-	-	(14,986)
Foreign investment losses accounted for using equity method	-	29,374	-	-	29,374
Deferred income tax (expense)/benefit		$16,683	$-	$107	
Deferred income tax assets/(liabilities), net	$68,255				$85,045
Information on the balance sheet is shown as follows:					
Deferred income tax assets	$85,585				$107,736
Deferred income tax liabilities	$(17,330)				$(22,691)

2018

	Beginning balance	Recognized in profit or loss	Recognized in other Comprehensive income	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)	
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)

Unrecognized deferred income tax assets

The Group's unrecognized deferred income tax assets accounted for NT$52,569 thousand and NT$49,179 thousand for the year ended December 31, 2019 and 2018, respectively.

The table below shows the income tax approval status of entities within the Group:

	2019.12.31	
	Business income tax approval status	Note
United Orthopedic Corporation (the Corporation)	Approved up to 2017	-
A-Spine Asia Co., Ltd. (subsidiary)	Approved up to 2017	-
Pauline Medical Co., Ltd. (2nd-tier subsidiary)	Approved up to 2017	-

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.

	2019	2018
(1) Basic earnings per share		
Net income attributable to common stock holders of the parent company (NT$ thousands)	$88,584	$127,554
Dividend of preferred stock	(4,808)	-
Net profit used in calculating basic earnings per share	$83,776	$127,554
Weighted average number of common stocks for basic earnings per share (thousands stock)	79,701	79,408
Basic earnings per share (NT$)	$1.05	$1.61
(2) Diluted earnings per share		
Net profit used in calculating basic earnings per share (NT$ thousands)	$83,776	$127,554
Interest of convertible bonds (NT$ thousands)	5,968	4,408
Net income attributable to common stock holders of the parent company after dilution effect adjustment (NT$ thousands)	$89,744	$131,962
Weighted average number of common stocks for basic earnings per share (thousands stock)	79,701	79,408
Dilution effect:		
Convertible bonds (thousands stock)	8,696	5,333
Restricted employee shares (thousands stock)	162	638
Weighted average number of common stocks after dilution effect adjustment (thousands stock)	88,559	85,379
Diluted earnings per share (NT$)	$1.01	$1.55

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

Disposal of the shares issued by the subsidiary

The Group disposed of 24.5% of the voting shares of A-Spine Asia Co., Ltd. on June 12, 2019, reducing its ownership to 74.9%. The total cash consideration received from non-controlling equity shareholders was NT$257,529 thousand, and the net carrying amount of the additional sale of relevant equity was NT$93,197 thousand. The difference between the consideration received and the equity disposed of was NT$164,332 thousand, which has been recognized as "capital surplus - difference between the proceeds received from acquisition or disposal of a subsidiary and its carrying amount."

New shares of subsidiaries not subscribed in proportion of shares held

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

UOC Europe Holding SA issued new shares for capital increase on April 15, 2019. Cash acquired by the Group from capital increase was CHF 2,000 thousand (TW$61,712 thousand), and the carrying amount of UOC Europe Holding SA's net asset (originally acquired without goodwill) was CHF 12,285 thousand (NT$379,877 thousand). However, the Group's ownership of the subsidiary was 96% both before and after the capital increase, so no adjustments were made to UOC Europe Holding SA's related equity.

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 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

United Biomech Japan issued new shares on February 20, 2019. As a result, the Group's ownership increased to 56%. Cash 1acquired by the Group from capital increase was JPY 25,500 thousand (NT$7,109 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY 29,623 thousand (NT$8,377 thousand). Adjustments relevant to the increase of the Group's interest in United Biomech Japan is as follows:

	2019
Cash capital increase acquired by the subsidiary	$-
Increase in non-controlling interests	2,877
Difference in retained earnings recognized in equity.	$2,877

United Biomech Japan issued new shares on May 15, 2019. As a result, the Group's ownership increased to 60%. The Group’s acquired cash for capital increase was JPY 89,000 thousand (NT$ 24,893 thousand), and the carrying amount of net asset of United Biomech Japan (originally acquired without goodwill) was JPY (798) thousand (NT$ (222) thousand). The adjustments to the increase in related equity of United Biomech Japan is as follows:

	2019
Cash capital increase acquired by the subsidiary	$-
Increase in non-controlling interests	4,568
Difference in retained earnings recognized in equity.	$4,568

United Biomech Japan issued new shares on June 17, 2019. As a result, the Group's ownership increased to 65%. Cash acquired by the Group from capital increase was JPY 70,000 thousand (NT$20,429 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY 66,819 thousand (NT$19,411 thousand). Adjustments relevant to the increase of the Group's interest in United Biomech Japan is as follows:

	2019
Cash capital increase acquired by the subsidiary	$-
Increase in non-controlling interests	6,180
Difference in retained earnings recognized in equity.	$6,180

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 Group
United Medical Co., Ltd.	Affiliate of the Group
United Medical Instrument Co., Ltd.	Affiliate of the Group
United Medical Technology (Shanghai) Co., Ltd.	Affiliate of the Group
Changgu Biotech Corporation	The Group is a shareholder of the company
Prime Medica Co.,Ltd.	The Company's subsidiary is its affiliate
Paonan Biotech Co., Ltd.	The Company's subsidiary is its affiliate
Peng, Yu-Hsin	Deputy General Manager of the Group

Major transactions with related parties

1. Sales

	2019	2018
Affiliate of the Group		
Shinva United Orthopedic Corporation	$130,244	$28,863
United Medical Co., Ltd.	9,841	24,947
United Medical Instrument Co., Ltd.	135,125	416,002
United Medical Technology (Shanghai) Co., Ltd.	2,693	4,667
The Group is a shareholder of the company		
Changgu Biotech Corporation	1,210	2,084
The Company's subsidiary is its affiliate		
Paonan Biotech Co., Ltd.	1,490	-
Total	$280,603	$476,563

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

	2019	2018
Affiliate of the Group		
United Medical Co., Ltd.	$40,134	$70,797
United Medical Instrument Co., Ltd.	15,568	-
The Company's subsidiary is its affiliate		
Prime Medica Co.,Ltd	-	1,872
Paonan Biotech Co., Ltd.	8,197	29,280
Total	$63,899	$101,949

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

	2019.12.31	2018.12.31
Affiliate of the Group		
Shinva United Orthopedic Corporation	$31,662	$18,247
United Medical Co., Ltd.	2,597	268
United Medical Instrument Co., Ltd.	21,697	187,442
United Medical Technology (Shanghai) Co., Ltd.	-	4,699
The Group is a shareholder of the company		
Changgu Biotech Corporation	748	1,040
Total	56,704	211,696
Less: Loss allowance	-	-
Net	$56,704	$211,696

4. Accounts payable - related parties

	2019.12.31	2018.12.31
Affiliate of the Group		
United Medical Co., Ltd.	$6,937	$1,364
United Medical Instrument Co., Ltd.	14,299	-
The Company's subsidiary is its affiliate		
Paonan Biotech Co., Ltd.	33,240	32,454
Total	$54,476	$33,818

5. Other receivables - related parties

	2019.12.31	2018.12.31
Affiliate of the Group		
Shinva United Orthopedic Corporation	$5,409	$-

6. Other payables - related parties

	2019.12.31	2018.12.31
Affiliate of the Group		
United Medical Co., Ltd.	$58	$245
The Company's subsidiary is its affiliate		
Paonan Biotech Co., Ltd.	2,876	1,615
Total	$2,934	$1,860

7. Lending

For details on loans provided by the Company to subsidiaries, please refer to Table 1.

8. Endorsement/Guarantee

For details on the Company's guarantee and endorsement due to subsidiaries' bank loans, please refer to Table 2.

9. 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 Company has collected proceeds of NT$83 thousand. There was no such occurence in 2019.

10. Remuneration for the Group's key management

	2019	2018
Short-term employee benefits	$21,727	$24,105
Share-based payments	4,428	2,805
Total	$26,155	$26,910

11. Other revenues

	2019	2018
Affiliate of the Group		
Shinva United Orthopedic Corporation	$22,693	$-

The Group intended to provide technical services to the affiliated company Shinva United Orthopedic Corporation in an amount of RMB 6,000 thousand based on the agreement signed on January 23, 2019. In 2019, the Company received a technical service amount of NT$ 26,940 thousand (CNY 6,258 thousand), and after unrealized profit and loss of NT$ 4,247 thousand (RMB 987 thousand) was deducted, the amount recognized under other revenues is NT$22,693 thousand (CNY 5,271 thousand).

VIII. Pledged assets

The following table lists assets of the Group pledged as collaterals:

Item	Carrying amount 2019.12.31	Carrying amount 2018.12.31	Secured liabilities
Financial assets at amortized cost - non-current	$12,704	$6,714	Performance bond and guarantee for customs duties
Property, plant and equipment - land and building	512,452	522,119	Comprehensive credit loan
Property, plant and equipment - machinery and equipment	115,357	273,291	Comprehensive credit loan
Total	$640,513	$802,124	

IX. Commitments and contingencies

None.

X. Loss due to major disasters

None.

XI. Significant subsequent events

None.

XII. Others

1. Categories of financial instruments

Financial assets

	2019.12.31	2018.12.31
Financial assets at FVTPL:		
Mandatorily measured at FVTPL	$-	$40
Financial assets at FVTOCI	3,135	3,483
Financial assets measured at amortized cost:		
Cash and cash equivalents (exclude cash on hand)	538,979	527,645
Financial assets measured at amortized cost	12,704	6,714
Notes receivable	3,041	17,935
Other receivables (including related parties)	552,928	643,535
Other receivables (including related parties)	13,167	21,406
Subtotal	1,120,819	1,217,235
Total	$1,123,954	$1,220,758

Financial liabilities

	2019.12.31	2018.12.31
Financial liabilities at FVTPL:		
Mandatorily measured at FVTPL	$3,250	$-
Financial liabilities measured at amortized cost:		
Short-term loans	199,880	973,982
Short-term notes and bills payable	-	49,984
Receivables (including related parties)	554,711	491,398
Bonds payable (including bonds due within one year)	869,984	391,223
Long-term loans (including loans due within one year)	339,109	543,504
Lease liabilities	198,677	(Note)
Subtotal	2,162,361	2,450,091
Total	$2,165,611	$2,450,091

Note: The Company has adopted IFRS 16 as of January 1, 2019, and elected not to restate the comparative period pursuant to the transitional provisions of IFRS 16.

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 Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the Group's net investments in foreign operations.

The Company has certain foreign currency receivables denominated in the same foreign currency as certain foreign currency payables; therefore, natural hedge is achieved. The Company also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as 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 Company.

The foreign currency sensitivity analysis of the impact of possible changes in foreign exchange rates on the Company's profit and equity is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company'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, 2019 and 2018 will increase/decrease by NT$1,752 thousand and NT$2,034 thousand, respectively.

When NT dollar appreciates/depreciates against RMB by 1%, the Group's profit or loss for the years ended December 31, 2019 and 2018 will increase/decrease by NT$510 thousand and NT$3,116 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 borrowings with variable interest rates and interest rate swaps, and it was assumed that the said items had been held for a fiscal period; when the interest rates rose/fell by 0.1%, the Group 's profit and loss in 2019 and 2018 would decrease/increase by NT$8,000 thousand and NT$1,033 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 FVTPL or measured at fair value through other comprehensive income (those were available-for-sale as of December 31, 2018). 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.

For unlisted stocks in equity instrument investment measured at fair value through other comprehensive income, when the prices of these equity securities increased/decreased by 1%, there was no significant impact on the Group's interests in 2019 and 2018.

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, 2019 and 2018, the Group's top ten receivables from clients accounted for 27% and 46% of the Group's total 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
2019.12.31					
Loan	$244,443	$88,627	$49,388	$161,446	$543,904
Payables	554,711	-	-	-	554,711
Convertible bonds	400,000	-	500,000	-	900,000
Lease liabilities	25,382	34,897	24,649	158,143	243,071
2018.12.31					
Loan	$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	-	400,000	-	-	400,000

6. Reconciliation of liabilities from financing activities

Reconciliation of liabilities from January 1 to December 31, 2019:

	Short-term loans	Payables Short-term notes and bills	Long-term loans	Payables Corporate bonds	Guarantee deposits Security Deposit	Lease liabilities (Note)	Total liabilities from financing activities
2019.1.1	$973,982	$49,984	$543,504	$391,223	$198	$197,612	$2,156,503
Cash flows	(769,141)	(49,984)	(204,395)	500,000	496	(26,679)	(549,703)
Non-cash changes	-	-	-	(21,239)	-	29,085	7,846
Changes in exchange rates	(4,961)	-	-	-		(1,341)	(6,302)
2019.12.31	$199,880	$-	$339,109	$869,984	$694	$198,677	$1,608,344

Note: The Group has adopted IFRS 16 since January 1, 2019, and chose not to restate the comparative period based on the transitional provisions of the standards.

Reconciliation of liabilities from January 1 to December 31, 2018:

	Short-term loans	Payables Short-term notes and bills	Long-term loans	Payables Corporate bonds	Guarantee deposits Security Deposit	Total liabilities from financing activities
2018.1.1	$690,048	$-	$292,979	$385,713	$154	$1,368,894
Cash flows	277,548	49,984	250,525	-	44	578,101
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	$198	$1,958,891

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	
	2019.12.31	2018.12.31	2019.12.31	2018.12.31
Financial assets				
Financial assets measured at amortized cost	$12,704	$6,714	$12,704	$6,714
Financial liabilities				
Bonds payable	869,984	391,223	869,984	391,223

Note: The Group has adopted IFRS 9 since January 1, 2019, 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 the fair value measurement hierarchy for financial instruments of the Company.

8. Derivative financial instruments

As of December 31, 2019 and 2018, 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

The embedded derivatives that the Company has identified because of the issuance of the convertible corporate bonds were already detached from the main contract, and were measured at FVTPL. Please refer to Note 6.15 for contract information about this transaction

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 Company has sufficient operation funds, no significant cash flow risk is expected.

9. Fair value hierarch

(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, 2019:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Measured at fair value through other comprehensive income				
Equity instruments at fair value through other comprehensive income	$-	$-	$3,135	$3,135
Liabilities measured at fair value				
Financial liabilities at FVTPL				
Convertible bonds with embedded derivative financial instruments	-	3,250	-	3,250

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
Measured at fair value through other comprehensive income				
Equity instruments at fair value through other comprehensive income	-	-	3,483	3,483

Transfers between Level 1 and Level 2 fair value hierarchy

For the years ended December 31, 2019 and 2018, 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.

Details on changes in repetitive fair value rank 3

For those of the Group's assets and liabilities measured at fair value on a recurring basis that were categorized as Level 3, adjustments from beginning to ending balance are as follows:

	Measured at fair value through other comprehensive income
	Stock
2019.1.1	$3,483
Total profits (loss) recognized for 2019:	
Recognized in other comprehensive income (listed under unrealized valuation gain (loss) on investments in equity instruments at FVTOCI)	(737)
Acquired in 2019	390
2019.12.31	$3,250

	Measured at fair value through other comprehensive income
	Stock
2018.1.1	$4,810
Total profits (loss) recognized for 2018:	
Recognized in other comprehensive income (listed under unrealized valuation gain (loss) on investments in equity instruments at FVTOCI)	(3,253)
Acquired in 2018	1,926
2018.12.31	$3,483

Information on significant unobservable input in fair value level 3

For the Group's assets measured at fair value on a recurring basis and categorized in fair value level 3, the significant unobservable input used toward fair value measurement is as follows:

December 31, 2019:

	Valuation technique	Significant unobservable Input	Quantitative information	Relationship between input and fair value	Value relationship between input and fair value through sensitivity analysis
Financial assets:					
Measured at fair value through other comprehensive income					
Stock	Market approach	Discount for the lack of liquidity	30%	The higher the degree of lack of liquidity, the lower the fair value estimate	When the percentage of lack of liquidity increases (decreases) by 10%, the equity in the Company will decrease by NT$447,000 (increase by NT$449,000)

December 31, 2018:

	Valuation technique	Significant unobservable Input	Quantitative information	Relationship between input and fair value	Value relationship between input and fair value through sensitivity analysis
Financial assets					
Measured at fair value through other comprehensive income					
Stock	Market approach	Discount for the lack of liquidity	30%	The higher the degree of lack of liquidity, the lower the fair value estimate	When the percentage of lack of liquidity increases (decreases) by 10%, the equity in the Company will decrease by NT$497,000 (increase by NT$498,000)

(3) Fair value hierarchy of the Company's assets and liabilities not measured at fair value but for which the fair value shall be disclosed

December 31, 2019:

	Level 1	Level 2	Level 3	Total
Liabilities not measured at fair value but for which the fair value is disclosed:				
Bonds payable	$-	$869,984	$-	$869,984

December 31, 2018:

	Level 1	Level 2	Level 3	Total
Liabilities not measured at fair value but for which the fair value is disclosed:				
Bonds payable	$-	$391,223	$-	$391,223

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

	2019.12.31			2018.12.31		
	Foreign currency	Exchange rates	NT$	Foreign currency	Exchange rates	NT$
Financial assets						
Monetary items:						
USD	$7,676	29.9300	$229,732	$8,080	30.6650	$247,764
EUR	2,085	33.3900	69,632	1,578	35.0000	55,244
JPY	83,323	0.2740	22,831	10,264	0.2762	2,835
CHF	11	30.7800	343	330	31.0400	10,253
CNY	15,635	4.2800	66,917	70,786	4.4470	314,787
GBP	693	39.1500	27,116	32	38.6700	1,247
Financial liabilities						
Monetary items:						
USD	$1,815	30.0300	$54,508	$1,442	30.7650	$44,354
EUR	590	33.7900	19,942	1,332	35.4000	47,169
JPY	3,410	0.2780	948	1,949	0.2802	546
CHF	-	31.0700	-	26	31.3300	818
CNY	3,677	4.3300	15,919	699	4.4970	3,144
GBP	13	39.5700	497	-	39.0900	-
CAD	-	23.1000	-	25	22.6900	567

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. The Group's foreign currency exchange gain (loss) from January 1 to December 31, 2019 and 2018 was NT$(3,195) thousand and NT$4,796 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) Engage in trading of derivative products: Please see consolidated financial note 6. 2. Notes 6 14 and Note 12
   (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:

	2019	2018
Taiwan	$967,904	$868,831
Asia	463,846	650,072
America	432,553	400,580
Europe	486,778	371,629
Africa	30,605	9,213
Australia	55,014	31,922
Total	$2,436,700	$2,332,247

Non-current Assets:

	2019.12.31	2018.12.31
Taiwan	$2,552,721	$2,140,177
United States	113,655	110,038
Europe	214,137	199,851
Japan	49,491	18,752
Total	$2,930,004	$2,468,818

3. Information on major customers

	2019.12.31	2018.12.31
United Medical Instrument Co., Ltd.	$135,125	$416,002

(All amounts expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 1. Capital financing to others as of December 31, 2019:

Unit: NT$1,000

No.	Lending company	Borrower	Item	Whether the recipient is a related party	Highest amount in current period	Ending balance (approved cap by the Board of Directors)	Actual expenditures	Interest range	Capital financing feature	Business transaction amount	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 Corporatio	UOC America Holding Corporation	Accounts receivable - related partie	Yes	$40,000	$40,000	$-	1.3214%~1.40%	Business nature	$126,368	None	$-	None	$-	$126,368	$271,263
0	United Orthopedic Corporatio	United Orthopedic Corporation (Suisse) SA	Long-term receivables - related part	Yes	92,775	92,775	39,183	1.3214%~1.40%	Business nature	106,800	None	-	None	-	106,800	271,263
1	UOC America Holding Corporation	UOC USA , Inc	Accounts receivable - related partie	Yes	40,000	40,000	-	1.3214%~1.40%	Business nature	126,358	None	-	None	-	126,358	135,631
2	United Orthopedic Corporation (Suisse) SA	United Orthopedic Corporation (France)	Accounts receivable - related partie	Yes	46,388	46,388	-	1.3214%~1.40%	Business nature	100,616	None	-	None	-	100,616	135,631

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.

(All amounts expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 2. Endorsements/Guarantees for others as of December 31, 2019:

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 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	$271,263	$231,225	$231,225	$184,980	$-	9.55%	$452,104	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, 2019:

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 period				Note(Note 4)
				Number of shares (thousand shares)	Carrying amount (Note	Shareholding ratio	Fair value	
United Orthopedic Corporation	Changgu Biotech Corporation	The Company is a shareholder of the company	Equity instruments measured at fair value through other comprehensive income - non-	478	$2,083	19.26%	$2,083	None
A-Spine Asia Co., Ltd.	Taiwan Main Orthopedic Biotechnology Co., Ltd.	The subsidiary is a shareholder of the Company	Equity instruments measured at fair value through other comprehensive income - non-	235	1,052	3.26%	1,052	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

(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% of the paid-in capital:

Unit: NT$1,000

Purchase (sales) Company	Transacting party	Relationship	Transaction details				Unusual transaction terms and its reasons		Bills and accounts receivable (payable)		Note
			Purchase (sales)	Amount	Ratio to total purchases (sales) (%)	Credit period	Unit price	Credit period	Balance	Ratio to total receivables (payable) (%)	
United Orthopedic Corporation	UOC America Holding Corporation	Parent/Subsidiary Company	Sales	$(126,368)	8.02%	90 days	Note	Note	$78,551	11.58%	
United Orthopedic Corporation	United Orthopedic Corporation (Suisse) SA	Parent/Sub-subsidiary	Sales	$(106,800)	6.78%	270 days	Note	Note	$218,536	32.21%	
United Orthopedic Corporation	United Medical Instrument Co., Ltd.	Associates	Sales	$(134,807)	8.55%	90 days	Note	Note	$21,440	3.16%	
United Orthopedic Corporation	Shinva United Orthopedic	Associates	Sales	$(125,428)	7.96%	90 days	Note	Note	$29,914	4.41%	
UOC America Holding Corporation	UOC USA, Inc.	Subsidiary/Sub-subsidiary Company	Sales	$(126,358)	98.56%	90 days	Note	Note	$78,564	100.00%	
United Orthopedic Corporation (Suisse) SA	United Orthopedic Corporation (France)	Associates	Sales	$(100,616)	62.64%	90 days	Note	Note	$50,638	78.89%	

Note: There is no significant difference from the normal trade.

Table 5. Accounts receivable from related parties of at least NT$100 million or 20% of the paid-in capital as of December 31, 2019

Unit: NT$1,000

Company with accounts receivable	Name of transacting party	Relationship	Accounts receivable balance from related parties	Turnover rate	Overdue accounts receivable from related party		Amount received from related parties	Appropriated allowance for doubtful accounts
					Amount	Handling method		
United Orthopedic Corporation	United Orthopedic Corporation (Suisse) SA	Parent/Sub-subsidiary	$218,536 (Note 1)	0.39	$-	-	$42,471	$-

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)

Table 6. Business relations and significant transactions between parent and subsidiary companies:

No. (Note 1)	Name of transacting party	Transacting party	Nature of relationship(Note 2)	Transaction status			
				Account	Amount	Transaction terms	Percentage to consolidated revenue ortotal assets (Note
2019							
0	United Orthopedic Corporation	UOC America Holding Corporation	1	Sales revenue	$126,368	Note 4	5.11%
0	United Orthopedic Corporation	UOC America Holding Corporation	1	Accounts receivable	78,551	-	1.50%
0	United Orthopedic Corporation	United Orthopedic Corporation (Suisse) SA	4	Sales revenue	106,800	Note 4	4.32%
0	United Orthopedic Corporation	United Orthopedic Corporation (Suisse) SA	4	Accounts receivable	218,536	-	4.17%
0	United Orthopedic Corporation	United Biomech Japan	1	Sales revenue	30,620	Note 4	1.24%
0	United Orthopedic Corporation	United Biomech Japan	1	Accounts receivable	52,649	-	1.00%
0	United Orthopedic Corporation	A-Spine Asia Co., Ltd.	1	Sales revenue	6,596	Note 4	0.27%
0	United Orthopedic Corporation	A-Spine Asia Co., Ltd.	1	Accounts receivable	1,341	-	0.03%
1	UOC America Holding Corporation	United Orthopedic Corporation	2	Sales revenue	1,841	Note 4	0.07%
1	UOC America Holding Corporation	United Orthopedic Corporation	2	Accounts receivable	-	-	0.00%
1	UOC America Holding Corporation	UOC USA, Inc.	5	Sales revenue	126,358	Note 4	5.11%
1	UOC America Holding Corporation	UOC USA, Inc.	5	Accounts receivable	78,564	-	1.50%
2	United Orthopedic Corporation (Suisse) SA	United Orthopedic Corporation (France)	6	Sales revenue	100,616	Note 4	4.07%
2	United Orthopedic Corporation (Suisse) SA	United Orthopedic Corporation (France)	6	Accounts receivable	50,638	-	0.97%
2	United Orthopedic Corporation (Suisse) SA	United Orthopedic Corporation (Belgium) SA	6	Sales revenue	1,747	Note 4	0.07%
2	United Orthopedic Corporation (Suisse) SA	United Orthopedic Corporation (Belgium) SA	6	Accounts receivable	1,712	-	0.03%
3	United Orthopedic Corporation (France)	United Orthopedic Corporation (Suisse) SA	6	Sales revenue	3,725	Note 4	0.15%
4	A-Spine Asia Co., Ltd.	Pauline Medical Co., Ltd.	5	Sales revenue	9,890	Note 4	0.40%
4	A-Spine Asia Co., Ltd.	Pauline Medical Co., Ltd.	5	Accounts receivable	2,540	-	0.05%

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 mark 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: Beforementioned 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 Region	Primary Business items	Original investment amount: End of current period	Original investment amount: End of previous year	Holding at the end of period: Number of Shares	Holding at the end of period: Ratio	Holding at the end of period: Carrying amount	Current (loss) gain from investee companies	Investment (loss) gain recognized in current period	Note
United Orthopedic Corporation	UOC America Holding Corporation	British Virgin Islands	Holding company, trading	356,086	232,933	11,500	100%	88,137	(53,997)	(53,997)	Subsidiary
				(USD 11,500)	(USD 7,500)	(Note 7)					
United Orthopedic Corporation	UOC Europe Holding SA	Switzerland	Holding company	420,142	358,430	13,500	96%	180,102	(35,400)	(43,390)	Subsidiary
				(CHF 13,500)	(CHF 11,500)	(Note 2)					
United Orthopedic Corporation	United Biomech Japan	Japan	Trading, wholesale	105,294	58,261	3,695	65%	(7,720)	(56,653)	(34,452)	Subsidiary
				(JPY 369,500)	(JPY 192,500)	(Note 4)					
United Orthopedic Corporation	A-Spine Asia Co., Ltd.	Taiwan	Trading, wholesale, manufacturing	386,480	650,480	10,089,640	75%	574,061	56,562	43,379	Subsidiary
						(Note 5)					
UOC America Holding Corporation	UOC USA, Inc.	USA	Trading, wholesale	356,086	232,933	2,300	100%	154,511	(53,138)	(53,138)	Sub-subsidiary
				(USD 11,500)	(USD 7,500)	(Note 1)					
UOC Europe Holding SA	United Orthopedic Corporation (Suisse) SA	Switzerland	Trading, wholesale	49,987	49,987	1,550	100%	22,482	(35,810)	(35,810)	Sub-subsidiary
				(CHF 1,550)	(CHF 1,550)	(Note 2)					
UOC Europe Holding SA	United Orthopedic Corporation (France)	France	Trading, wholesale	310,304	245,891	8,782	100%	252,039	3,541	3,541	Sub-subsidiary
				(EUR 8,782)	(EUR 6,900)	(Note 3)					
UOC Europe Holding SA	United Orthopedic Corporation (Belgium)	Belgium	Trading, wholesale	17,194	-	500	100%	14,504	(2,347)	(2,347)	Sub-subsidiary
				(EUR 500)	-	(Note 3)					
A-Spine Asia Co., Ltd.	Pauline Medical Co., Ltd.	Taiwan	Trading, wholesale	4,800	4,800	480,000	100%	11,313	296	296	Sub-subsidiary
						(Note 6)					

Note 1: The face value per share is USD 5,000.

Note 2: The face value per share is CHF 1,000.

Note 3: The face value per share is EUR 1,000.

Note 4: The face value per share is JPY 50,000.

Note 5: The face value per share is TWD 10, and the per share purchase price is TWD 60.

Note 6: The face value per share is TWD 10.

Note 7: 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 1,000/USD 1,000

Invested company in China Company name	Primary business Items	Paid-in Capital	Investment method	Cumulative investment remitted from Taiwan at the beginning of the period	Amount remitted from or recollected in current period		Cumulative investment remitted from Taiwan at the beginning of the period	Current (loss) gain from investee companies	Company's shareholding ratio through direct or indirect investments	Profit or loss for the current period	Ending investment Carrying amount	Accumulated repatriation of investment income as of the end of the period.
					Remit	Recollect						
Shinva United Orthopedic Corporation	Plant and joint production and sales	$1,436,694 (CNY 300,000 thousand)	(Note 1)	$487,520 (CNY 98,000 thousand)	$216,944 (CNY 49,000 thousand)	$-	$704,464 (CNY 147,000 thousand) (Note 2)	$(39,029)	49%	($19,124)	$564,805	$-

Cumulative investment remitted from Taiwan to Mainland China as of end of period	Investment amount authorized by the Investment Commission, MOEA	Investment cap for investments in China set by the Investment Commission
$704,464 (CNY 147,000 thousand)	$704,464 (CNY 147,000 thousand)	$1,760,356

Note 1: Direct investment in China.

Note 2: Including technical value of RMB 30,000 thousand.

(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	Name of transacting party	Company name	Purchase amount	Percentage to the Company's purchase	Ending accounts payable balance	Percentage %
2019	United Orthopedic Corporation	United Medical Co., Ltd.	$40,134	11.20%	$6,937	8.43%
2019	United Orthopedic Corporation	United Medical Instrument Co., Ltd.	15,568	4.35%	14,299	17.37%

(2) Sale amount and percentage, and ending accounts receivable balances and percentage:

Year	Name of transacting party	Company name	Sales amount	Percentage to the Company's sales	Ending accounts receivable balance	Percentage %
2019	United Orthopedic Corporation	United Medical Instrument Co., Ltd.	$134,807	8.55%	$21,440	3.16%
2019	United Orthopedic Corporation	United Medical Co., Ltd.	9,841	0.62%	2,597	0.38%
2019	United Orthopedic Corporation	Shinva United Orthopedic Corporation	125,429	7.96%	29,914	4.41%
2019	United Orthopedic Corporation	United Medical Technology (Shanghai) Co., Ltd.	2,693	0.17%	-	0.00%
2019	A-Spine Asia Co., Ltd.	United Medical Instrument Co., Ltd.	318	0.08%	257	0.29%
2019	A-Spine Asia Co., Ltd.	Shinva United Orthopedic Corporation	4,815	1.21%	1,748	1.94%

(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 Statements Audited and Attested by CPAs for the Most Recent Year

Independent Auditors' Report

To United Orthopedic Corporation:

Audit opinion

We have audited the individual balance sheets of United Orthopedic Corporation as of December 31, 2019 and 2018, and the related individual statements of comprehensive income, statements of changes in equity, statements of cash flows, 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, 2019 and 2018, 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 section titled "Auditors' Responsibilities for the Audit of the Individual Financial Statements" 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 (the Code), 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, 2019 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$708,074 thousand as of December 31, 2019, which accounted for 16% of the individual total assets. It was considered significant to the individual financial statements. With the continuous innovation of orthopedic supplies and equipment production technology, the inventory may become outdated or the selling price may drop. The estimated net realizable value and obsolescence loss involve significant management judgment. We believed that inventory valuation was of significance to the audit of individual financial statements; hence, we determined inventory valuation to be a key audit item. Our audit procedures included, but were 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 verification 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 - artificial hip joints, artificial knee joints, trauma-treatment products, and OEM products, and their revenue as of 2019 was NT$1,576,184 thousand, which was significant to the individual financial statements. As the characteristics of the medical industry and customer needs involve different types of transaction conditions, it is necessary to judge and determine the performance obligations and the timing of meeting the performance obligations. We believed that the recognition of revenue from contracts with customers was of significance to the audit of individual financial statements; hence, we determined revenue recognition to be a key audit item. Our audit procedures included, but were 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 was 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 ran 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$95,982 thousand as of December 31, 2019, which was considered significant to the individual financial statements. 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 were 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, 2019. 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:
Financial-Supervisory-Securities-Sheng-1060027042
Financial-Supervisory-Securities-VI-0970038990

Ma, Chun-Ting

Certified Public Accountants:

Huang, Chien-Che

March 19, 2020

United Orthopedic Corporation
Parent-Company-Only Balance Sheets
December 31, 2019 and December 31, 2018

Unit: NT$1,000

Assets			December 31, 2019		December 31, 2018	
Code	Accounting items	Note	Amount	%	Amount	%
	Current assets					
1100	Cash and cash equivalents	4 and 6.1	$299,528	7	$279,681	7
1150	Net notes receivable	4, 6.(5) and 6.20	3,041	-	3,735	-
1170	Net accounts receivable	4, 6.6 and 6.20	262,599	6	246,045	6
1180	Accounts receivable - related parties, net	4, 6.6, 6.20 and 7	405,777	9	605,571	14
1200	Other receivables	IV	1,716	-	6,331	-
1210	Other receivable - related parties (net)	4 and 7	7,251	-	1,316	-
1220	Income tax assets for this period	4 and 6.25	165	-	165	-
130x	Inventories	4 and 6.7	708,074	16	710,615	17
1410	Prepayments		17,205	-	19,738	-
1470	Other current assets		1,776	-	131	-
11xx	Total current assets		1,707,132	38	1,873,328	44
	Non-current assets					
1510	Financial assets measured at fair value through profit or loss - non-current	4, 6.2 and 6.14	-	-	40	-
1517	Financial assets measured at fair value through other comprehensive income - non-current	4 and 6.3	2,083	-	1,957	-
1535	Financial assets measured at amortized cost - non-current	4 and 6.4 and 8	12,704	-	6,714	-
1550	Investments accounted for using the equity method	4 and 6.8	1,407,105	31	1,191,337	28
1600	Property, plant and equipment	4, 6.9 and 8	1,013,441	22	1,008,810	23
1755	Right-of-use assets	47 and 6.21	140,631	3	-	-
1780	Intangible assets	4 and 6.10	109,440	2	76,478	2
1840	Deferred income tax assets	4 and 6.25	96,746	3	74,531	2
1900	Other non-current assets	7	66,155	1	35,325	1
15xx	Total non-current assets		2,848,305	62	2,395,192	56
	Total assets		$4,555,437	100	$4,268,520	100

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

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

United Orthopedic Corporation
Individual Balance Sheets (continued)
December 31, 2019 and December 31, 2018

Unit: NT$1,000

Liabilities and equity			December 31, 2019		December 31, 2018	
Code	Accounting items	Note	Amount	%	Amount	%
	Current liabilities					
2100	Short-term loans	4 and 6.11	$-	-	$743,619	17
2110	Short-term bills payable	4 and 6.12	-	-	49,984	1
2130	Contract liabilities - current	4 and 6.19	616	-	1,870	-
2150	Notes payable	IV	1,996	-	535	-
2170	Accounts payable	IV	59,088	1	55,905	1
2180	Accounts payable - related parties	4 and 7	21,236	1	1,364	-
2200	Other accounts payable	IV	261,037	6	240,161	6
2220	Other payables - related parties	4 and 7	32	-	245	-
2230	Income tax liabilities for this period	4 and 6.25	17,840	-	2,062	-
2280	Lease liabilities - current	47 and 6.21	7,915	-	-	-
2300	Other current liabilities		4,490	-	4,340	-
2321	Current portion of corporate bonds and convertable bonds	4 and 6.14	396,813	9	-	-
2322	Current portion of long-term borrowings	4 and 6.15	37,098	1	42,982	1
21xx	Total current liabilities		808,161	18	1,143,067	26
	Non-current liabilities					
2500	Financial liabilities measured at fair value through profit and loss - non-current	4, 6.13 and VI.14	3,250	-	-	-
2530	Bonds payable	6.14	473,171	10	391,223	9
2540	Long-term loans	4 and 6.15	226,011	5	407,907	10
2580	Lease liabilities - non-current	47 and 6.21	133,715	3	-	-
2600	Other non-current liabilities		693	-	198	-
2630	Long-term deferred revenue	4 and 6.8	73,424	2	79,792	2
2640	Net defined benefit liabilities - non-current	4 and 6.16	2,566	-	11,601	-
2650	Remaining loan credit for investments accounted for using the equity method	4 and 6.8	7,720	-	2,914	-
25xx	Total non-current liabilities		920,550	20	893,635	21
	Total liabilities		1,728,711	38	2,036,702	47
	Equity	4, 6.17 and 6.27				
3100	Capital					
3110	Capital - common stock		804,209	18	804,509	19
3120	Preferred stock capital		100,000	2	-	-
	Total share capital		904,209	20	804,509	19
3200	Additional paid-in capital		1,827,683	40	1,280,336	30
3300	Retained earnings					
3310	Legal reserve		81,687	2	68,932	2
3320	Special reserve		59,505	1	47,655	1
3350	Undistributed earnings		76,165	2	125,668	3
	Total retained earnings		217,357	5	242,255	6
3400	Other equity					
3410	Differences on translation of foreign financial statements		(97,388)	(2)	(56,254)	(1)
3420	Unrealized gain (loss) on the financial assets measured at fair value through other comprehensive income		(3,772)	-	(3,251)	-
3491	Unearned employee compensations	4 and 6.18	(21,363)	(1)	(35,977)	(1)
	Total other equity		(122,523)	(3)	(95,482)	(2)
	Total Equity		2,826,726	62	2,231,818	53
	Total liabilities and equity		$4,555,437	100	$4,268,520	100

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

Chairman: Lin, Yan-Shan　　Manager: Lin, Yan-Shan　　Accounting Manager: Tang, Yuan-Chang

United Orthopedic Corporation
Parent-Company-Only Statements Of Comprehensive Income
December 31, 2019 and December 31, 2018

Unit: NT$1,000

Code	Accounting items	Notes	2019 Amount	2019 %	2018 Amount	2018 %
4000	Operating revenue	4, 6.19 and 7	$1,576,184	100	$1,789,376	100
5000	Operating costs	4, 6.7, 6.22 and 7	734,972	47	823,810	46
5900	Gross profit		841,212	53	965,566	54
5920	Realized (unrealized) gain on sales		46,769	3	(50,872)	(3)
5950	Net gross profit		887,981	56	914,694	51
6000	Operating expenses	4, 6.20, VI.21, 6.20 and 7				
6100	Marketing expenses		412,118	26	378,851	21
6200	Administrative expenses		148,948	9	145,778	8
6300	R&D expenses		152,044	10	175,268	10
6450	Loss (gain) on expected credit impairments		-	-	(1,580)	-
	Total operating expenses		713,110	45	698,317	39
6900	Operating profit		174,871	11	216,377	12
7000	Non-operating income and expenses	4, 6.8, 623 and 7				
7010	Other income		53,673	4	41,245	2
7020	Other gains and losses		(12,520)	(1)	4,316	-
7050	Financial cost		(20,839)	(1)	(15,852)	(1)
7775	Share of losses of subsidiaries, associates and joint ventures accounted for using the equity method		(107,584)	(7)	(125,494)	(7)
	Non-operating income and expenses		(87,270)	(5)	(95,785)	(6)
7900	Net profit before tax		87,601	6	120,592	6
7950	Income tax benefit	4 and 6.25	983	-	6,962	-
8200	Net profit for this period		88,584	6	127,554	6
8300	Other comprehensive income	4 and 6.24				
8310	Items that will not be reclassified to profit or loss					
8311	Remeasurement of defined benefit plan		1,206	-	(1,886)	-
8316	Equity instruments measured at fair value through other Unrealized valuation gain (loss)		126	-	(2,819)	-
8320	Subsidiaries, associates and joint ventures accounted for using the Share of comprehensive income - items that will not be reclassified		(647)	-	(432)	-
8349	Income tax relating to items that will not be reclassified to profit or loss		-	-	-	-
8360	Items that may be reclassified to profit or loss later					
8380	Subsidiaries, associates and joint ventures accounted for using the Share of comprehensive income - items that may be reclassified to		(41,134)	(3)	(8,599)	-
8399	Income tax relating to items that may be reclassified to profit or loss		-	-	-	-
	Other comprehensive income for this period (net of tax)		(40,449)	(3)	(13,736)	-
8500	Total comprehensive income for this period		$48,135	3	$113,818	6
	Earnings per share (NT$)	4 and 6.26				
9750	Basic earnings per share		$1.05		$1.61	
9850	Diluted earnings per share		$1.01		$1.55	

(Please refer to the notes to the parent-company only financial statements)

Chairman: Lin, Yan-Shan   Manager: Lin, Yan-Shan   Accounting Manager: Teng, Yuan-Chang

United Orthopedic Corporation

Parent-Company-Only Statements of Changes in Equity

December 31, 2019 and December 31, 2018

Unit: NT$1,000

Code	Items	Share capital: Common stock	Share capital: Preferred share capital	Additional paid-in capital	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Undistributed earnings	Other equity: Exchange differences on translation of financial statements of foreign operations	Other equity: Unrealized gain (loss) on the financial assets measured at fair value through other comprehensive income	Other equity: Unearned employee compensations	Total equity
		3100	3120	3200	3310	3320	3350	3410	3420	3491	
	Balance on January 1, 2018	$797,129	$-	$1,243,611	$55,906	$31,620	$129,464	$(47,655)	$-	$(5,160)	$2,204,915
	Earnings appropriation and distribution in 2017										
	Appropriated as legal reserve	-	-	-	13,026	-	(13,026)	-	-	-	-
	Appropriated as special reserve	-	-	-	-	16,035	(16,035)	-	-	-	-
	Cash dividend of common stock	-	-	-	-	-	(100,403)	-	-	-	(100,403)
	Composition of equity recognized due to convertible bond issuance	-	-	-	-	-	-	-	-	-	-
	Changes in subsidiaries, affiliates and joint ventures recognized under equity method	-	-	1,470	-	-	-	-	-	-	1,470
	Net profit in 2018	-	-	-	-	-	127,554	-	-	-	127,554
	Other comprehensive income in 2018	-	-	-	-	-	(1,886)	(8,599)	(3,251)	-	(13,736)
	Total comprehensive income or loss for this period	-	-	-	-	-	125,668	(8,599)	(3,251)	-	113,818
	Capital increase	-	-		-	-	-	-	-	-	-
	Changes in ownership equity of subsidiaries	-	-	1,903	-	-	-	-	-	-	1,903
N1	Share-based payment transaction - employee stock options	-	-	-	-	-	-	-	-	-	-
	Share-based payment transaction - new restricted employee shares	7,380	-	33,552	-	-	-	-	-	(30,817)	10,115
	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
	Balance on January 1, 2019	$804,509	$-	$1,280,536	$68,932	$47,655	$125,668	$(56,254)	$(3,251)	$(35,977)	$2,231,818
	Earnings appropriation and distribution in 2018										
	Appropriated as legal reserve	-	-	-	12,755	-	(12,755)	-	-	-	-
	Appropriated as special reserve	-	-	-	-	11,850	(11,850)	-	-	-	-
	Cash dividend of common stock	-	-	-	-	-	(101,063)	-	-	-	(101,063)
	Component of equity recognized associated with convertible bond issuance□ - raised from bond conversion	-	-	26,300	-	-	-	-	-	-	26,300
	Additional paid-in capital paid out as cash dividend	-	-	(59,839)	-	-	-	-	-	-	(59,839)
	Net profit in 2019	-	-	-	-	-	88,584	-	-	-	88,584
	Other comprehensive income in 2019	-	-	-	-	-	1,206	(41,134)	(521)	-	(40,449)
	Total comprehensive income or loss for this period	-	-	-	-	-	89,790	(41,134)	(521)	-	48,135
	Issuance of preferred shares	-	100,000	417,500	-	-	-	-	-	-	517,500
	Difference of acquisition or disposal price and book value of subsidiaries	-	-	164,332	-	-	-	-	-	-	164,332
	Changes in ownership equity of subsidiaries	-	-	-	-	-	(13,625)	-	-	-	(13,625)
	Share-based payment transaction - new restricted employee shares	(300)	-	(1,362)	-	-	-	-	-	14,614	12,952
	Share-based payment transaction - preferred shares for employees	-	-	216	-	-	-	-	-	-	216
	Balance on December 31, 2019	$804,209	$100,000	$1,827,683	$81,687	$59,505	$76,165	$(97,388)	$(3,772)	$(21,363)	$2,826,726

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

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

United Orthopedic Corporation
Individual Statements of Cash Flow
December 31, 2019 and December 31, 2018

Unit: NT$1,000

Code	Accounting items	2019 Amount	2018 Amount
	Cash flow from operating activities:		
	Net profit before tax for this period	$87,601	$120,592
	Adjustment items:		
	Adjustment items related to profit or loss:		
	Depreciation expense	121,909	108,239
	Amortization expense	8,690	8,785
	Loss on expected credit impairments	-	(1,580)
	Net loss on financial liabilities measured at fair value through profit and loss	890	40
	Interest expenses	20,839	15,852
	Interest incomes	(3,104)	(1,340)
	Remuneration costs made with share-based payments	13,168	10,115
	Share of losses of subsidiaries, associates and joint ventures accounted for using the equity method	107,584	125,494
	Loss on disposal of property, plant and equipment	818	711
	(Realized) unrealized gain on sales	(46,769)	50,872
	Other income	(6,368)	(25,473)
	Adjustment items related to operating assets and liabilities:		
	Reduced (increased) notes receivable	694	(823)
	Increase in accounts receivable	(16,554)	(54,407)
	Decrease (increase) in accounts receivable - related parties	199,794	(194,675)
	Decrease in other receivables	4,678	6,923
	Increase in other receivable - related parties	(5,935)	(1,007)
	Decrease (increase) in inventories	6,788	(98,763)
	Decrease in prepayments	2,533	4,283
	Decrease (increase) in other current assets	(1,645)	107
	Increase (decrease) in contract liabilities	(1,254)	934
	Increase (decrease) in notes payable	1,461	(1,767)
	Increase (decrease) in accounts payable	3,183	(21,317)
	Increase (decrease) in accounts payables - related parties	19,872	(15,683)
	Increase (decrease) in other payables	21,188	(18,569)
	Decrease in other payables - related parties	(213)	(408)
	Increase in other current liabilities	150	261
	Decrease in net defined benefit liability	(7,829)	(7,141)
	Cash inflow generated from operations	532,169	10,255
	Interest income received	3,041	1,310
	Dividend received	24,215	40,896
	Income tax paid	(5,454)	(39,386)
	Net cash inflow from operating activities	553,971	13,075
	Cash flow from investment activities:		
	Acquisition of financial assets measured at fair value through other comprehensive income	-	(1,926)
	Acquisition of financial assets measured at amortized cost	-	(9)
	Principal repayment for financial assets measured at amortized cost	(5,990)	-
	Acquisition of investment accounted for using the equity method	(448,843)	(393,760)
	Proceeds from capital reduction of investee companies accounted for using the equity method	-	127,627
	Acquisition of property, plant and equipment	(73,657)	(79,319)
	Disposal of real property, plant, and equipment	31	111
	Increase in refundable deposits	(2,306)	(4,445)
	Acquisition of intangible assets	(41,652)	(47,680)
	Increase in other non-current assets	(39,184)	(41,131)
	Increase in prepaid equipment purchases	(34,001)	-
	Net cash outflow from investing activities	(645,602)	(440,532)
	Cash flow from financing activities:		
	Increase (decrease) in short-term borrowings	(743,619)	243,619
	Increase in short-term bills payable	-	49,984
	Decrease in short-term bills payables	(49,984)	-
	Issuance of corporate bonds	500,000	-
	Borrowing of long-term borrowings	-	257,140
	Repayment of long-term borrowings	(187,780)	
	Increase in deposits received	496	44
	Repayment of the principal amount of leases	(10,321)	-
	Cash dividends payout	(160,902)	(100,403)
	Capital increase in cash	517,500	-
	Disposal of equity interests in subsidiaries (control not lost)	257,529	-
	Interests paid	(11,441)	(10,147)
	Net cash inflow from financing activities	111,478	440,237
	Increase in current cash and cash equivalents	19,847	12,780
	Beginning balance of cash and cash equivalents	279,681	266,901
	Ending balance of cash and cash equivalents	$299,528	$279,681

(Please refer to the notes to the parent-company only financial statements)

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

United Orthopedic Corporation
Notes to Individual Financial Statements
For the Years Ended December 31, 2019 and 2018

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

I. Company History

United Orthopedic Corporation (hereinafter referred to as the "Company") 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 Company'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 Company for the years ended December 31, 2019 and 2018 were authorized for issue by the Board of Directors on March 19, 2020.

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 Company has adopted the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and Standing Interpretations approved by the Financial Supervisory Commission (FSC) and have been applicable since January 1, 2019. First-time adoption has not had significant influences on the Company besides the following explanations on the characters and impacts from the new standards and amendments:

(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."

Pursuant to transitional treatment of IFRS 16, the Company's initial adoption was on January 1, 2019. The effects of first-time adoption of IFRS 16 are as follows:

A. Please refer to Note 4 for accounting policies adopted by the Company after and prior to January 1, 2019.

B. Definition of lease: The Company has chosen not to re-evaluate whether contracts were (or included) leases on 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. In other words, the Company only evaluates contracts signed (or changed) on or after January 1, 2019 for applicability of IFRS 16 "Leases." Compared with IAS 17, IFRS 16 stipulates that a contract is (or includes) a lease if it transfers control of the use of an identified asset for a period of time in exchange for considerations. After evaluating the definition of the application of the new leases for most circumstances, the Company has concluded that no material impact has been made to the evaluation of whether a contract is (or includes) a lease.

C. As a lessee, the Company 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.

(a) Leases previously classified as operating leases

The Company 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 Company's right-of-use assets and lease liabilities increased by NT$149,399 thousand and NT$149,399 thousand, respectively, on January 1, 2019.

In addition, on January 1, 2019, for all leases that were classified as operating leases through application of IAS 17 "Leases," with all related rent paid, the long-term repaid rent, NT$0 thousand, was reclassified as right-of-use assets.

Pursuant to transitional treatment of IFRS 16, the Company has adopted the following practical expedient for leases that were formerly classified as operating leases based on individual leases:

i. A single rate of discount is applied to a portfolio of leases with reasonably similar characteristics.

ii. The assessment of whether the lease is loss-making immediately before January 1, 2019 is used as an alternative of reviewing impairment.

iii. Leases that will end within 12 months after January 1, 2019 will be treated as short-term leases.

iv. Original direct costs will not be counted toward the right-of-use asset valuation as of January 1, 2019.

v. Hindsight is used, such as determination of a lease term (if the contract includes an option to extend or terminate the lease).

(b) Additional note disclosures regarding lessees in accordance with IFRS 16 can be found at Notes 4, 5, and 6.

(c) Below is a description of the impacts on financial statements of the first-time adoption of IFRS 16 on January 1, 2019:

i. The weighted average of the lessee's incremental borrowing rate of interest to which the lease liability was applied and recognized on January 1, 2019 was 1.5484%.

ii. The difference between operating lease commitments under IAS 17 on December 31, 2018 and lease liabilities recognized on the balance sheet as of January 1, 2019 using the incremental borrowing rate of interest on January 1, 2019 was NT$0 thousand:

Operating lease commitments under IAS 17 on December 31, 2018	$193,504
Using the incremental borrowing rate of interest on January 1, 2019	$149,399
Add: Lease payments as of December 31, 2018	-
Lease liabilities recognized on January 1, 2019	$149,399

D. The Company as a lessor has not made any adjustments, and has only added disclosures related to the lessees. Please refer to Note 4 and Note 6 for details.

2. The Company 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	Definition of a business (Amendments to IFRS 3)	January 1, 2020
2	Definition of material (Amendments to IAS 1 and IAS 8)	January 1, 2020
3	Interest rate benchmark reform (Amendments to IFRS 9, IAS 39, and IFRS 7)	January 1, 2020

(1) 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 material, and narrowing the definitions of a business and outputs.

(2) Definition of material (Amendments to IAS 1 and IAS 8)

This change is mostly attributable to the redefinition of materiality: If any omission or misstatement of information can be reasonably expected to influence decisions made by primary users of general-purpose financial statements based on such financial statements, then the information is material. This amendment clarifies whether materiality depends on the nature or scale of the information, or both. An enterprise will evaluate whether information is material based on the entirety of the financial statements.

(3) Interest rate benchmark reform (Amendments to IFRS 9, IAS 39, and IFRS 7)

This amendment targets all hedging relationships directly influenced by the interest rate benchmark reform, and a few exceptions to the rule have also been included. When uncertainty arises from the timing or amount of cash flow from the benchmark basis of the hedged item or hedge instrument due to the interest rate benchmark reform, the hedging relationship will be directly influenced. Therefore, a company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform.

This amendment includes the following:

A. The highly probable requirement

When determining whether a forecast transaction is highly probable, a company shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

B. Prospective assessments

When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

C. IAS 39 retrospective assessment

A company is not required to undertake the IAS 39 retrospective assessment for hedging relationships directly affected by the reform (i.e., whether the actual results of the hedge are within the 80–125% range).

D. Separately identifiable risk components

For hedges of a non-contractually specified benchmark component of interest rate risk, a company shall apply the separately identifiable requirement only at the inception of such hedging relationships.

These amendments also include rules that terminate the application of the exceptions and the disclosure of such amendments.

The aforementioned new, revised and amended standards or interpretations have been issued by IASB and endorsed by FSC to take effect from January 1, 2020 and have no material impact on the Company.

3. As of the date of issuance of the financial statements, the Company 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 IASB
2	IFRS 17 "Insurance Contracts"	January 1, 2021
3	Liabilities classified as current or non-current (Amendments to IAS 1)	January 1, 2022

(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 Company measures the group of insurance contracts at the total of fulfillment cash flows and contractual service margin upon initial recognition. The fulfillment cash flows include:

A. Estimated future cash flow

B. Discount rate: an adjustment that reflects the time value of money and the financial risks associated with future cash flows (within financial risks not included in the estimated value of future cash flows); and

C. 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:

A. Specific applicable methods with contracts characterized by direct participation (variable fee method)

B. Simplified short-term contract method (premium allocation approach)

(3) Liabilities classified as current or non-current (Amendments to IAS 1)

This amendment targets sections 69-76 in IAS 1 "Presentation of Financial Statements" concerning the classification of liability as either current or non-current.

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 Company for their potential effects and the impacts of aforementioned standards or interpretations on the Company cannot be reasonably estimated for now, other new, revised and amended standards or interpretations do not have significant impact on the Company.

IV. Summary of Significant Accounting Policies

1. Statement of compliance

The individual financial statements for the years ended December 31, 2019 and 2018 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 Company's individual financial statements are presented in New Taiwan Dollars, which is the Company'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: Recognition and Measurement" are accounted for based on the accounting policy for financial instruments.

(3) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation 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 Company 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 Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.

(2) The Company holds the asset primarily for the purpose of trading.

(3) The Company 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 Company expects to settle the liability in its normal operating cycle.

(2) The Company 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 Company 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 Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities within the scope of IFRS 9 "Financial Instruments" 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

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

The Company classifies financial assets as subsequently measured at amortized cost, 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 Company 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.

(2) Impairment of financial assets

The Company 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 Company 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 Company measures the loss allowance at an amount equal to lifetime expected credit losses.

D. For Leases receivables arising from transactions within the scope of IFRS 16 (IAS 17 prior to January 1, 2019), the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each balance sheet date, the Company 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.

(3) Derecognition of financial assets

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

A. The contractual rights to the cash flows from the financial asset expire.

B. The Company has transferred substantially all the risks and rewards of ownership of the asset to another party.

C. The Company 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 Company 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 Company that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

Compound instruments

The Company evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Company 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 issued conversion corporate bonds from the Company do include an equity element, they are handled in accordance with IFRS 9 Hybrid Instruments.

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 "Financial Instruments" are classified as financial liabilities at fair value through profit or loss 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.

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. Derivatives

The Company 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 financial 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 profit or loss or equity.

For host contracts that are non-financial assets or non-financial liabilities, 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.

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 Company has 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 Company 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	－	The weighted average method is used for the actual purchase cost.
Finished goods and work in progress	－	including direct materials, labor and fixed production expenses amortized by normal productivity, but excluding the loan cost.

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.

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 Company'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 statements 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 Company 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 Company'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 Company 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 Company'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 Company has incurred legal or constructive obligations or made payments on behalf of the associates. Unrealized gains and losses resulting from transactions between the Company and the associates are eliminated to the extent of the Company'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 Company's ownership percentages in those entities, the Company 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 Company'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 Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associates or joint ventures is impaired in accordance with IAS 28 "Investment in Related Companies and Joint Ventures." If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associates or joint ventures and their carrying value and recognizes the amount in the "share of profit or loss of associates or joint ventures" in the statement of comprehensive income in accordance with IAS 36 - Impairment of Assets. If the investment's value in use is adopted as the recoverable amount, the Company 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 Company 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 Company'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 Company and the Company 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 Company 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
Leasehold improvements	Over the shorter of the lease terms or useful lives

Note: The Company has reclassified leased assets as right-of-use assets after adopting IFRS 16 as of January 1, 2019.

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

Accounting treatment starting from January 1, 2019 is as follows:

Contracts formed on or after January 1, 2019 were evaluated by the Company whether they are (or include) leases. A contract is (or includes) a lease if it transfers control of the use of an identified asset for a period of time in exchange for considerations. To evaluate whether the contract has transferred the control of the use of an identified asset for a period of time, the Company will evaluate whether the following two factors occurred during the entire duration of use:

(1) Rights to nearly all economic benefits of the identified asset have been received; and
(2) The control over the right to use the identified asset.

The Company has chosen not to reassess whether contracts are (or include) leases on 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.

For contracts that are (or include) leases, the Company will treat each lease component in the contract individually, as well as separating them from the non-lease components in the contracts. For leases that include one lease component and one or more additional lease or non-lease components, the Company will use the single comparison price of each lease component and the aggregated single prices of non-lease components as the basis, and distribute the consideration in the contract to the lease component. The comparison single unit price of the lease and non-lease components will be decided upon the prices separately received by the lessor (or supplier) for such components. If observable single unit prices are not readily available, the Company will maximize the use of observable information to estimate their respective single unit prices.

The Company being a lessee

Except for leases that meet and are selected to be treated as short-term leases or low-value assets, when the Company is the lessee of a lease contract, the Company will recognize all right-of-use asset and lease liabilities related to all leases.

At the start date, the Company measures the lease liability at the present value of the unpaid lease payments on that date. If the interest rate implicit in a lease can be easily determined, the lease payment is discounted at the interest rate. If such interest rate is difficult to determine, the lessee's incremental borrowing rate of interest will be used. On the start date, the lease payment of the lease liability will be accounted for, including the following payments that have to do with the target right-of-use asset during the lease period that have not been paid on that date:

(1) Fixed payments (including substantial fixed payments), minus any lease incentives that can be obtained;
(2) Variable lease payments dependent upon certain indicators or rates (measured by the indicators or rates used on the start date);
(3) Lease payments expected to be payable by the lessee under the residual value guarantee; and
(4) Exercise price for purchase of options, if the Company can be reasonably assured that the right will be exercised; and

(5) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the start date, the Company will measure the lease liability using amortized cost-based measurement, and the carrying amount of the lease liability will be added by the effective interest method to reflect interest of the lease liability. Lease payment will be subtracted from the carrying amount of the lease liability.
On the start date, the Company will measure the right-of-use asset at cost, and the cost of the right-of-use asset will include:

(1) The amount of the initial measurement of the lease liability;
(2) Any lease payment paid on the start date or before, minus any lease incentives taken;
(3) Any initial direct costs incurred by the lessee; and
(4) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Valuation of the right-of-use asset will be cost minus accumulated depreciation and accumulated impairment loss, or the right-of-use asset can be measured at cost model.
If the ownership of the target asset will be transferred to the Company when the lease period expires, or if the cost of the right-of-use asset reflects that the Company will exercise purchase option, then the depreciation of the right-of-use asset will be measured from the start date of the lease until the end of the asset's useful life. Otherwise, the Company will depreciate the right-of-use asset from the start date until the end of its useful life, or the end of the lease term, whichever is the earlier of the two.
The Company uses IAS 36 - Asset Impairment to determine whether an asset has been impaired and treats any identified impairment loss.
Except for lease of assets that meet and were selected to be short-term lease or low-value asset, the Company will recognize right-of-use assets and lease liabilities on the balance sheet, and separately recognize any depreciation expense and interest expense related to the lease on the statement of comprehensive income.
For short-term leases and low-value asset leases, the Company chooses to use straight-line basis or another systematic basis, and recognizes related lease payments as expenses during the lease terms.

<u>The Company being a lessor</u>
On the date of establishment the contract, the Company will classify each lease as either operating lease or financing lease. If nearly all risks and rewards associated with the ownership of the asset will be transferred during the lease, it will be categorized as a financing lease; if risks and rewards will not be transferred, it will be an operating lease.
The Company will recognize assets held under financing leases on the balance sheet on the start date, and express them as lease payment receivable based on the net lease investment.
For contracts that include lease components and non-lease components, the Company will distribute the considerations in the contract using regulations from IFRS 15.
The Company uses direct-line basis or another systematic basis to recognize lease payments from operating leases as lease revenue. For variable lease payments not based on certain indicators or rates in operating leases, the Company will recognize them as lease revenue when they occur.

Accounting treatment prior to January 1, 2019 is as follows:

The Company being a lessee

A finance lease transfers substantially all of the risks and rewards associated with the underlying asset's ownership to the Company 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. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

Lease assets are depreciated over the assets' useful lives. However, if it cannot be reasonably certain that the Company 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 Company being a lessor

Leases where the Company 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 completed has achieved technical feasibility and is available for use or sale.
(2) The Company intends to complete the intangible asset and make it available for use or sale.
(3) The Company has an ability to use or sell the intangible asset.
(4) The intangible asset will most likely generate future economic benefits. In addition, there is evidence that the intangible asset is produced or already exists in the market; if the intangible asset is for internal use, the Company can prove the usefulness of the asset.
(5) There are sufficient skills, funds, and other resources to complete the intangible asset and make it available for use or sale.
(6) Expenditures during the development stage of the intangible asset can be reliably measured.

Following initial recognition of the capitalized development expenditure, the cost model is applied; that is, 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.

Specialized technology

Externally acquired technical skills are granted 15 years of right-of-use and amortized on a straight-line basis. Internally produced technical skills are amortized on a straight-line basis over the forecast sales period for the related projects.

Computer software

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

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

	Intangible assets under development	Specialized technology	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 external acquisition	Internal production	Internal production or external acquisition	External acquisition

15. Impairment of non-financial assets

The Company 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 Company 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 Company 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

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

<u>Sales of goods</u>

The Company 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 Company 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 Company 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 Company 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 Company 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.

17. Post-employment benefits

The post-employment regulations of the Company 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 Company. Therefore, it is not included in the parent company only financial statements.

For post-employment benefit plan that is classified as a defined contribution plan, the Company'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 Company 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 Company 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 Company'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 or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of 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 Company 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 Company 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 Company'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. Judgments

In the process of adopting the Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

Judgments on whether development expenditures are eligible for capitalization

The Company 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 Company's judgments, which are made based on the facts that the Company 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 Company 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 Company 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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The explanations are as follows:

(1) 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 Company 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 Company 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 Company'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 Company as of December 31, 2019 are disclosed in Note 6.

VI. Important Accounting Items

1. Cash and cash equivalents

	2019.12.31	2018.12.31
Cash on hand	$7	$709
Checks and demand deposits	134,556	145,798
Time deposits	164,965	133,130
Deposits in transit	-	44
Total	$299,528	$279,681

2. Financial assets at FVTPL

	2019.12.31	2018.12.31
Mandatorily measured at FVTPL:		
Convertible corporate bond with embedded derivative instruments	$-	$40
Non-current	$-	$40

Financial assets at FVTPL were not pledged.

3. Financial assets at FVTOCI

	2019.12.31	2018.12.31
Investments in equity instruments at FVTOCI - non-current:		
Unlisted stocks		
Changgu Biotech Corporation	$2,083	$1,957
Net	$2,083	$1,957

(1) Financial assets at FVTOCI were not pledged.

(2) For the years ended December 31, 2019 and 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

	2019.12.31	2018.12.31
Time deposits	$12,704	$6,714
Less: Loss allowance	-	-
Total	$12,704	$6,714
Non-current	$12,704	$6,714

The Company classifies certain financial assets as financial assets measured at amortized cost. Please refer to Note 6(20), Note 8 and Note 12 for more details on allowance for impairment loss, pledge, and credit risk disclosures, respectively.

5. Notes receivable

	2019.12.31	2018.12.31
Notes receivable - arising from operation	$3,041	$3,735
Less: Loss allowance	-	-
Total	$3,041	$3,735

Notes receivables were not pledged.
The Company assesses information related to impairment and allowance for impairment using regulations from IFRS 9. Please refer to Note 6(20) for details. Please see Note 12 for information on credit risk.

6. Account receivables and account receivable - related party

	2019.12.31	2018.12.31
Accounts receivable	$269,676	$253,122
Less: Loss allowance	(7,077)	(7,077)
Subtotal	262,599	246,045
Account receivable - stakeholder	405,777	605,571
Less: Loss allowance	-	-
Total	$668,376	$851,616

Accounts receivable were not pledged.
Trade receivables are generally on 60-180 day terms. The carrying amount as of December 31, 2019 and 2018 was NT$675,453 thousand and NT$858,693 thousand, respectively. Please refer to Note 6(20) and Note 12 for more details on allowance for impairment loss and credit risk for the years ended December 31, 2019 and 2018.

7. Inventories

	2019.12.31	2018.12.31
Product	$2,740	$1,324
Finished goods	399,846	424,367
Work-in-process	196,543	205,408
Raw material	108,945	79,516
Total	$708,074	$710,615

(1) The cost of inventories recognized as expenses by the Company is listed below:

Item	2019	2018
Cost of sales	$731,708	$817,080
Allowance for inventory valuation and obsolescence loss	3,264	6,730
Total	$734,972	$823,810

(2) No inventories aforementioned were pledged.

8. Investments accounted for using the equity method

The following table lists the Company's investments accounted for using the equity method:

	2019.12.31		2018.12.31	
Investee company name	Amount	Shareholding ratio	Amount	Shareholding ratio
Investments in subsidiaries:				
UOC America Holding Corporation	$88,137	100%	$21,781	100%
UOC Europe Holding SA	180,102	96%	142,108	96%
A-SPINE Asia Co., Ltd.	574,061	75%	648,741	99%
Investments in associates:				
Shinva United Orthopedic Corporation	564,805	49%	378,707	49%
Sub-total of items under assets	1,407,105		1,191,337	
Investments in subsidiaries:				
United Biomech Japan	(7,720)	65%	(2,914)	53%
Sub-total of items under liabilities	(7,720)		(2,914)	
Total	$1,399,385		$1,188,423	

(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 Company's significant associates is as follows:

Company name: Shinva United Orthopedic Corporation

Relation: This company engages in the manufacturing or sales of products associated with the Company'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:

	2019.12.31	2018.12.31
Current assets	$664,349	$366,288
Non-current assets	651,699	526,947
Current liabilities	(88,322)	(25,312)
Non-current liabilities	-	-
Equity	1,227,726	867,923
Shareholding ratio of the Company	49%	49%
Subtotal	601,586	425,282
Elimination and adjustment due to inter-company transactions	(36,781)	(46,575)
Carrying amount of investments	$564,805	$378,707

	2019	2018
Operating revenue	$155,471	$602
Net (loss) profit of continuing business units for this period	(39,029)	(11,622)
Other comprehensive gain or loss	-	-
Comprehensive income or loss for this period	(39,029)	(11,622)

The Company has invested CNY 30,000 thousand, equivalent to NT$149,844 thousand, in 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 and recognized upon realization within the scope of non-related investors' interests in associates. As of December 31, 2019 and 2018, the accumulated amortization amounted to NT$76,420 thousand and NT$70,052 thousand, respectively.

The aforementioned investments in associates did not have contingent liabilities or capital commitments as of December 31, 2019 and 2018 and were not pledged.

9. Property, plant and equipment

	December 31, 2019 (Note)	2018.12.31
Property, plant and equipment for own use	$1,013,441	(Note)
Property, plant and equipment for operating leases	-	(Note)
Total	$1,013,441	(Note)

Note: The Company has adopted IFRS 16 as of January 1, 2019 and selected not to recompile the comparison period pursuant to the transitional treatment.

(1) Property, plant and equipment for own use (under IFRS 16)

	Land	Buildings	Machinery and equipment	Tooling equipment	Information equipment	Leasehold improvements	Other equipment	Total
Cost:								
2019.1.1	$87,763	$436,750	$545,975	$88,285	$12,077	$7,937	$212,997	$1,391,784
Additions	-	-	1,488	31,492	576	-	40,101	73,657
Disposals	-	-	(19,608)	(11,191)	(1,518)	-	(24,015)	(56,332)
Reclassification	-	-	28,027	813	-	-	15,822	44,662
2019.12.31	$87,763	$436,750	$555,882	$109,399	$11,135	$7,937	$244,905	$1,453,771
Depreciation and amortization:								
2019.1.1	$-	$43,251	$191,618	$31,713	$7,101	$2,854	$106,437	$382,974
Depreciation	-	14,119	48,144	11,918	2,416	1,569	34,673	112,839
Disposals	-	-	(19,608)	(10,342)	(1,518)	-	(24,015)	(55,483)
Reclassification	-	-	-	-	-	-	-	-
2019.12.31	$-	$57,370	$220,154	$33,289	$7,999	$4,423	$117,095	$440,330
Net carrying amount:								
2019.12.31	$87,763	$379,380	$335,728	$76,110	$3,136	$3,514	$127,810	$1,013,441

Note: The Company has adopted IFRS 16 as of January 1, 2019 and selected not to recompile the comparison period pursuant to the transitional treatment.

(2) Property, plant and equipment (prior to the adoption of IFRS 16)

	Land	Buildings	Machinery and equipment	Tooling equipment	Information equipment	Leasehold improvements	Other equipment	Total
Cost:								
2018.1.1	$87,763	$434,600	$469,951	$75,814	$10,744	$4,240	$186,512	$1,269,624
Additions	-	2,505	20,869	21,459	1,896	3,363	29,227	79,319
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	$1,391,784
Depreciation and amortization:								
2018.1.1	$-	$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	-	-	-	-	-	-	-	-
2018.12.31	$-	$43,251	$191,618	$31,713	$7,101	$2,854	$106,437	$382,974
Net carrying amount:								
2018.12.31	$87,763	$393,499	$354,357	$56,572	$4,976	$5,083	$106,560	$1,008,810

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

(2) Please refer to Note 8 for details on property, plant and equipment pledged.

10. Intangible assets

	Computer software Costs	Specialized technology	Development expenditure	Total
Cost:				
2019.1.1	$11,721	$7,650	$77,857	$97,228
Additions - internal development	-	-	40,184	40,184
Additions - separate acquisition	1,468	-	-	1,468
Reclassification	-	3,097	(3,097)	-
Others	(5,058)	-	-	(5,058)
2019.12.31	$8,131	$10,747	$114,944	$133,822
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
Amortization and impairment:				
2019.1.1	$6,560	$43	$14,147	$20,750
Amortization	3,120	755	4,815	8,690
Others	(5,058)	-	-	(5,058)
2019.12.31	$4,622	$798	$18,962	$24,382
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
Net carrying amount:				
2019.12.31	$3,509	$9,949	$95,982	$109,440
2018.12.31	$5,161	$7,607	$63,710	$76,478

11. Short-term loan

	2019.12.31	2018.12.31
Credit loans	$-	$743,619
Interest rate range (%)	-	0.7928-0.9800

As of December 31, 2019 and 2018, the Company's unused short-term loan facilities were NT$1,580,000 thousand and NT$596,381 thousand; unused short-term notes and bills payable facilities were NT$150,000 thousand and NT$150,000 thousand; and unused long-term loan facilities were NT$425,000 thousand and NT$225,000 thousand, respectively.

12. Short-term notes and bills payable

	2019.12.31	2018.12.31
Short-term notes and bills payable	$-	$50,000
Less: Discount on short-term bills payable	-	(16)
Net	$-	$49,984
Interest rate (%)	-	0.5200

13. Financial liabilities at fair value through profit or loss

	2019.12.31	2018.12.31
Mandatorily measured at FVTPL:		
Convertible corporate bonds embedded derivatives	$3,250	$-
Non-current	$3,250	$-

14. Bonds payable

	2019.12.31	2018.12.31
Domestic unsecured bonds payable	$869,984	$391,223
Less: Liabilities due within one year	(396,813)	-
Long-term domestic convertible bonds payable	$473,171	$391,223

Domestic convertible bonds payable

	2019.12.31	2018.12.31
Liability elements:		
Nominal amount of domestic convertible bonds payable	$900,000	$400,000
Converted amount	-	-
Discount on domestic convertible bonds payable	(30,016)	(8,777)
Subtotal	869,984	391,223
Less: Liabilities due within one year	(396,813)	-
Net	$473,171	$391,223
Embedded derivative - Assets	$-	$40
Embedded derivative - Liabilities	$3,250	$-
Equity elements	$42,900	$16,600

(1) On August 11, 2017, the Company issued the 2nd domestic unsecured convertible bonds with the face interest rate 0%. The convertible bonds are analyzed based on the contract clauses, and the composition elements include primary debts, embedded derivatives (option of redemption for the issuer, and an option of requesting the issuer's redemption), and equity elements (bondholders have the option of requesting to convert into issuer's ordinary shares). Primary issuance clauses are as follows:

Total amount of issuance: NT$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 Company's common stock at the Taipei Exchange exceeds conversion price by more than 30 percent (inclusive) for 30 consecutive business days, the Company 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 Company 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 Company's share registrar in writing before the final bond recall date set out in the "Bond Recall Notice," the Company will recall the bonds by cash on the due date.

Conversion methods:

A. Converted target: Common stocks of the Company.

B. Conversion period: From November 12, 2017 to August 11, 2020, the bond holders can request for conversion into the Company's common stocks instead of cash redemption by the Company.

C. Conversion price and adjustment: The conversion price upon issuance was set at NT$77.30 per share. Where incidents occur and the Company'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, 2019 and 2018, the conversion price was NT$70.30 and NT$73.40 per share, respectively.

D. Redemption on maturity date: The Company'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, 2019.

(2) On September 10, 2019, the Company issued the 3rd domestic non-pledge convertible bonds with the face interest rate 0%. The convertible bonds are analyzed based on the contract clauses, and the composition elements include primary debts, embedded derivatives (option of redemption for the issuer, and an option of requesting the issuer's redemption), and equity elements (bondholders have the option of requesting to convert into issuer's ordinary shares). Primary issuance clauses are as follows:

Total amount of issuance: NT$500,000 thousand. Face amount per equity: NT$100 thousand. The issuance is in full carrying amount.

Period of Issuance: September 10, 2019 to September 10, 2024.

Critical clauses for redemption:

A. On the next day after the convertible bonds issued for three month full (December 11, 2019) till 40 days prior to the due date (August 1, 2024), If the closing price of the Company's common stock at the securities firm’s business premises exceeds the conversion price by more than 30 percent for 30 consecutive business days, the Company may be notified to repay the outstanding amount of cash by the denomination of the bond in cash.

B. On the next day after the convertible bonds issued for three month full (December 11, 2019) till 40 days prior to the due date (August 1, 2024), if the Company's convertible bonds circulating externally are lower than NT$50,000 thousand (10% of the original issue amount), the Company shall announce to reclaim all bonds circulating externally in cash by the bond carry amount.

C. If the bondholder fails to respond to the Company's share registrar in writing before the final bond recall date set out in the "Bond Recall Notice", the Company will recall the bonds by cash on the due date.

Critical clauses for requesting the issuer's redemption:

On the day when the convertible bonds have been issued for three years (September 10, 2022) and on the day when the bonds have been issued for four years (September 10, 2023), the bondholders may request the Company to redeem their bonds in cash by the face amount.

Conversion methods:

A. Converted target: Common stocks of the Company.

B. Conversion period: From December 11, 2019 to September 10, 2024, the bondholders can request for conversion into the Company's ordinary shares to replace the cash payout made by the Company.

C. Converted price and adjustment: the converted price upon issuance was set as NT$51.50 per share. When it comes to the converted price adjustment in accordance with the issuance clauses for the Company's ordinary shares, the converted price is subject to change in accordance to the formula stipulated in the issuance clauses. On December 31, 2019, each share carried the value of NT$51.50.

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

The bonds have not been converted as of December 31, 2019.

15. Long-term loans

Details of long-term loans for the years ended December 31, 2019 and 2018 are as follows:

Creditor	2019.12.31	Interest rate %	Repayment period and method
Taiwan Cooperative Bank - Hsinchu Science Park Branch	$43,886	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.
Bank of Taiwan	87,850	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.
"	131,373	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 for 52 times; the remaining principal will be repaid in a lump sum when due.
Total	263,109		
Less: long-term loans due within one year	(37,098)		
Net	$226,011		

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 Company 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		

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.

16. Post-employment benefits

Defined contribution plan

The Company's post-employment regulations in accordance with the "Labor Pension Act" belong to the defined contribution plan. According to the Act, the Company's monthly contribution rate for employees' pension shall not be lower than 6% of employees' monthly salary. The Company has 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 the years ended December 31, 2019 and 2018 were NT$19,808 thousand and NT$19,319 thousand, respectively.

Defined benefits plan

The Company'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 Company contributes 2% of total salaries as the pension fund on a monthly basis, which is deposited in the special account of Bank of Taiwan, in the name of the Supervisory Committee of Labor Pension Reserve. Also, the Company would assess the balance in the aforementioned labor pension reserve account 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 Company 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 Company 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, 2019, the Company's defined benefits plan has estimated to contribute NT$8,296 thousand in the following year.

For the years ended December 31, 2019 and December 31, 2018, the Company's defined benefits plans were expected to due on 2034 and 2033, respectively.

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

	2019	2018
Current service cost	$345	$331
Net interest of net defined benefit liabilities	122	234
Total	$467	$565

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

	2019.12.31	2018.12.31	2018.1.1
Present value of defined benefit obligations	$50,991	$57,045	$54,629
Fair value of plan assets	(48,425)	(45,444)	(37,773)
Net defined benefit liabilities on the book	$2,566	$11,601	$16,856

Reconciliation of net defined benefit liabilities:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
2018.1.1	$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	-	-	-
Subtotal	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)
Subtotal	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
Current service cost	345	-	345
Interest expense (income)	599	(477)	122
Previous service cost and settlement gains or losses	-	-	-
Subtotal	57,989	(45,921)	12,068
Remeasurements of defined benefit liabilities/assets:			
Actuarial gains or losses from demographic assumptions	-	-	-
Actuarial gains or losses from changes in financial assumptions	1,836	-	1,836
Experience adjustments	(1,577)	-	(1,577)
Remeasurements of defined benefit assets	-	(1,465)	(1,465)
Subtotal	58,248	(47,386)	10,862
Benefits paid	(7,257)	7,257	-
Employer contributions	-	(8,296)	(8,296)
2019.12.31	$50,991	$(48,425)	$2,566

Following assumptions are used to determine the Company's defined benefit plan:

	2019.12.31	2018.12.31
Discount rate	0.74%	1.05%
Expected salary increase rate	3.00%	3.00%

Sensitivity analysis of each significant actuarial assumption:

	2019		2018	
	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%	$-	$2,920	$-	$3,507
Discount rate decreases by 0.5%	3,150	-	3,792	-
Expected salary increases by 0.5%	3,063	-	3,698	-
Expected salary decreases by 0.5%	-	2,871	-	3,459

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.

17. Equities

(1) Share capital

As of January 1, 2019 and 2018, the Company'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.

Common stocks

Due to the fact that the Company's restricted employee shares did not meet the vesting conditions, the Board of Directors resolved to cancel 12 thousand shares on March 20, 2018 with a base date for capital reduction set on April 9, 2018, and the registration of changes was completed on April 18, 2018. 518 thousand shares from the Company'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$10. 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.
Due to the fact that the Company's restricted employee shares did not meet the vesting conditions, the Board of Directors resolved to cancel 18 thousand shares, 6 thousand shares and 6 thousand shares on May 2, 2019, August 6, 2019, and November 7, 2019 with base dates for capital reduction set on May 13, 2019, August 15, 2019, and November 15, 2019, and the registration of changes was completed on May 27, 2019, August 21, 2019, and November 28, 2019, respectively.

Preferred shares
The Board of Directors resolved on September 17, 2019 to issue 10,000 thousand preferred shares A at a total amount of NT$520,000 thousand, with NT$10/share at par and an issue price at NT$52/share. The issuance of preferred shares A was approved by the Financial Supervisory Commission in the Letter Zheng-Fa-Zi No. 1080325924 dated August 26, 2019, with the record date set on October 18, 2019. The issuance of preferred shares A has been registered in accordance with the laws and regulations and classified as equity. The relevant rights and obligations are excerpted as follows:

A. The annual percentage rate of preferred stocks is 4.5% (5-year interest rate swap (IRS) rate, 0.7162% + fixed rate, 3.7838%) and calculated at the issue price per share. The five-year IRS rate will be reset on the next business day after the fifth year from the issue date and every five years thereafter. The record date of the reset is two business days of financial institutions in Taipei prior to the reset date. The five-year IRS rate is the arithmetic mean of the offer prices of Reuter's PYTWDFIX and COSMOS3 at 11 a.m. on the record date of the reset (business day of financial institutions in Taipei). If such rate cannot be obtained, the Company will determine the rate based on the reasonable market price with good faith.
B. If the Company has earnings, except for taxes for the year, it shall offset the prior year losses, recognize legal surplus reserve according to the laws and regulations, and then recognize or rotate special reserve according to Articles of Association. If there is still earnings, it shall allot the distributable dividend for preferred shares of the year on priority.
C. The Company has discretion over the distribution of preferred stock dividends. If the Company did not generate any or sufficient profits during the year for the distribution of preferred stock dividends, it may resolve not to pay out the dividends and preferred shareholders have no rights to object. The preferred shares are non-cumulative; that is, the undistributed dividends or shortages in dividends distributed shall not be accumulated and paid in subsequent years when profits are generated.
D. A lump sum of preferred dividends will be distributed in cash annually. Once the Company's audited financial statements have been acknowledged in the annual general meeting of the shareholders, the Board shall be authorized to set the payment date for the distribution of the payable preferred share dividends for the previous year. The number of dividends issued in the year of issue and in the year of redemption is calculated based on the actual number of days of issue in the current year. Distributed dividends will be recognized in the dividend statement.

E. Regarding the aforesaid dividends, shareholders of preferred shares shall not be a part of the cash and equity capital of earnings and additional paid-in capital of ordinary shares.

F. Shareholders of preferred shares have no right to request the Company to redeem their preferred shares; however, preferred shares may be redeemed in whole or in part at issue price anytime after five years of issuance at the option of the Company, provided the "Notice of Redemption of Preferred Shares" with a period of 30 days has been announced or sent to the shareholders of preferred shares. Unredeemed preferred shares shall continue to be subject to the rights and obligations of the aforesaid issuance terms. In the year of redeeming the preferred shares, if the Company's shareholders' meeting makes the resolution to distribute dividend, the distributable dividend up to the date of recovery shall be calculated according to the actual issuance days of the current year.

G. The preferred shareholders have a higher claim to the Company's residual properties than common shareholders. Different types of preferred stocks issued by the Company grant holders the same rights to claims, and preferred shareholders stay subordinate to general creditors. The amount preferred shareholders are entitled to is capped at the product of number of outstanding preferred stocks at the time of distribution and issuance price.

H. The preferred shareholders have neither voting nor election rights. However, they may be elected as directors or supervisors. They have voting rights in preferred shareholders' meetings or with respect to agendas associated with the rights and obligations of preferred shareholders in shareholders' meetings.

I. The preferred shares shall not be converted within one year from the date of issue (October 18, 2019). From the day following the expiration of one year (October 19, 2020), the holders may apply for the conversion of part or all of their preferred shares to common shares (conversion ratio: 1:1) in the conversion period. The smallest unit of conversion is one share. After the conversion of the preferred shares into common shares, their rights and obligations are the same with the latter. The payment of the annual dividends for the convertible preferred shares shall be calculated based on the actual issuing days in proportion to the days of that total year. Should any shares be converted into the common shares before the standard date of distribution of dividends, the holders shall not have the right to the distribution of the dividends of preferred shares in the current year but may participate in the distribution of common shares surplus and capital surplus.

J. For cash offering of new shares, the preferred shareholders have the same preemptive rights as the common shareholders.

As of December 31, 2019 and 2018, the Company's authorized capital amounted to NT$1,500,000 thousand and NT$1,000,000 thousand with issued common share capital of NT$804,209 thousand and NT$804,509 thousand and issued preferred share capital of NT$100,000 thousand and NT$0 thousand, respectively. Common shares were issued at a par value of NT$10, dividing into 80,421 thousand shares and 80,451 thousand shares, respectively. Preferred shares were issued at a par value of NT$10, dividing into 10,000 thousand shares and 0 thousand share, respectively.

(2) Capital surplus

	2019.12.31	2018.12.31
Issuance premium	$1,586,295	$1,228,634
Stock options – Convertible corporate bonds	42,900	16,600
Issuance of restricted employee shares	32,688	34,050
Difference between the proceeds received from acquisition or disposal of a subsidiary and its carrying amount	164,332	-
Others	1,468	1,252
Total	$1,827,683	$1,280,536

According to laws, capital surplus shall not be used except for making good the deficit of the Company. 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 Company 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.

The Company resolved in the shareholders' meeting held on June 19, 2019 to distribute capital surplus of NT$59,839 thousand in cash.

Please refer to Note 6(27) for more information about the difference between the actual acquisition or disposal of the Company's stock price and its book value.

(3) Earnings distribution and dividend policy

According to the Company's Articles of Association, 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 Company's dividend policy shall consider the Company's current and future investment environment, capital demands, domestic and foreign competition situations and capital budgets, in order to safeguard the shareholders' interests and find a balance between dividends and the Company'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 Company 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 Company 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 Company elects to transfer to retained earnings by application of the exemption under IFRS 1, "First-time Adoption of IFRS", the Company 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 Company 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 Company'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 Company did not use, dispose or reclassify related assets for the years ended December 31, 2019 and 2018, there is no reversal of special earnings reserve to undistributed earnings.

Details of the 2019 and 2018 earnings appropriation and distribution and dividends per share as approved by the Board of Directors' and the shareholders' meetings on March 19, 2020 and June 19, 2019, respectively, are as follows:

	Distribution of earnings		Dividend per share (NTD)	
	2019	2018	2019	2018
Statutory surplus reserve	$7,617	$12,755		
Special surplus reserve	41,655	11,850		
Cash dividend of common stocks	22,086	101,063	$0.275	$1.256
Preference dividends (Note)	4,808	-	0.481	-

Note: Calculated based on 75 days outstanding in 2019 and the rate of dividend at 4.5%.

Please refer to Note 6(22) for further details on the estimation and recognition foundation of employees' compensation and remuneration to directors and supervisors.

18. Share-based payment plans

Employees of the Company 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 Company

The Company'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 Company shall not be transferred within the three-year vesting period, however, the holders are still entitled to dividend distribution. The Board of Directors resolved to cancel 12 thousand shares on March 20, 2018. As of December 31, 2018, the total number of restricted employee shares issued was 530 thousand. A total of 518 thousand shares from the Company's restricted employee shares expired on July 26, 2018.

The Company'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 Company shall not be transferred within the three-year vesting period, however, the holders are still entitled to dividend distribution. The Board of Directors resolved to cancel 18 thousand shares, 6 thousand shares, and 6 thousand shares on May 2, 2019, August 6, 2019, and November 7, 2019, respectively. As the Company's restricted employee shares did not meet the vesting conditions, the total number of restricted employee shares issued was 720 thousand shares and 750 thousand shares as of December 31, 2019 and 2018, respectively.
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 Company 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 Company is entitled by law to retrieve the restricted employee shares and cancel them.

(2) The expense recognized by the Company for employee share-based payment plans is shown as the following:

	2019	2018
Plan of restricted employee shares	$12,952	$10,115

19. Operating revenue

	2019	2018
Sale of goods	$1,569,615	$1,789,007
Other operating revenues	6,569	369
Total	$1,576,184	$1,789,376

Revenue from the sale of goods was generated by a single segment and recognized at a point of time.

Contract balance
Contract liability - Current

	2019.12.31	2018.12.31
Sales of goods	$616	$1,870

The significant changes in the Company's balance of contract liabilities for the years ended December 31, 2019 and 2018 are described as follows:

	2019	2018
Beginning balance recognized as revenue in the current period	$(1,870)	$(850)
Increase in advance receipts (net of balance generated in the current period and reclassified as revenue)	616	1,784

20. Expected credit loss (gain)

	2019	2018
Operating expenses - Expected credit loss (gain)		
Notes receivable	$-	$-
Accounts receivable	-	(1,580)
Total	$-	$(1,580)

For information on credit risk, please refer to Note 12.
The Company's financial assets measured at amortized cost as of December 31, 2019 and 2018 had a low credit risk (same as of January 1 2018), so loss allowance was measured by the 12-month expected credit loss (loss ratio: 0%).
Loss allowance of the Company'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, 2019 and 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:

2019.12.31

		Number of days overdue				
	Not past due (Note)	Less than 120 days	121-150 days	151-180 days	Over 181 days	Total
Gross carrying amount	$605,313	$64,431	$993	$811	$6,946	$678,494
Loss ratio	0%	0%	5%	10%	100%	
Lifetime expected credit losses	-	-	50	81	6,946	7,077
Total	$605,313	$64,431	$943	$730	$-	$671,417
Carrying amount						$671,417

2018.12.31

		Number of days overdue				
	Not past due (Note)	Less than 120 days	121-150 days	151-180 days	Over 181 days	Total
Gross carrying amount	$776,318	$78,845	$159	$41	$7,065	$862,428
Loss ratio	0%	0%	5%	10%	100%	
Lifetime expected credit losses	-	-	8	4	7,065	7,077
Total	$776,318	$78,845	$151	$37	$-	$855,351
Carrying amount						$855,351

Note: None of the Company's notes receivable is past due.

The movements in the Company's loss allowance for notes receivable and accounts receivable as of 2019 and 2018 are as follows:

	Notes receivable	Accounts receivable
2019.1.1	$-	$7,077
Increase for the current period	-	-
2019.12.31	$-	$7,077
2018.1.1	$-	$8,657
Addition (reversal) for the current period	-	(1,580)
2018.12.31	$-	$7,077

21. Lease

(1) The Company as a lessee (applicable for disclosures related to IFRS 16)

The Company leases a number of different assets, including real estate (e.g., land and buildings) and transportation equipment. The term of each lease ranges from 2 years to 49 years.

The leases' impacts on the Company's financial position, financial performance, and cash flow are described as follows:

A. Amount recognized in the balance sheet

(a) Right-of-use assets

Carrying amount of right-of-use assets

	2019.12.31	2018.12.31
Land	$134,706	(Note)
Buildings	5,925	(Note)
Total	$140,631	(Note)

Note: The Company has adopted IFRS 16 as of January 1, 2019 and selected not to recompile the comparison period pursuant to the transitional treatment.

In 2019, the Company added NT$402 thousand of right-of-use assets.

(b) Lease liabilities

	2019.12.31	2018.12.31
Lease liabilities	$141,630	(Note)
Current	$7,915	(Note)
Non-current	$133,715	(Note)

For the interest expense on the Company's lease liabilities in 2019, please refer to (3) "Finance costs" under Note 6(23); for the analysis of the maturity of lease liabilities as of December 31, 2019, please refer to Note 12(5) "Liquidity risk management."

Note: The Company has adopted IFRS 16 as of January 1, 2019 and selected not to recompile the comparison period pursuant to the transitional treatment.

B. Amount recognized in statements of comprehensive income

Depreciation of right-of -use assets

	2019	2018
Land	$5,224	(Note)
Buildings	3,846	(Note)
Total	$9,070	(Note)

Note: The Company has adopted IFRS 16 as of January 1, 2019 and selected not to recompile the comparison period pursuant to the transitional treatment.

C. Revenues and expenses related to the lessee and lease activities

	2019	2018
Short-term lease expense	$142	(Note)
Lease expenses on low-value assets (excluding those of short-term leases)	1,052	(Note)
Revenue from sublease of right-of-use asset	1,045	(Note)

Note: The Company has adopted IFRS 16 as of January 1, 2019 and selected not to recompile the comparison period pursuant to the transitional treatment.

As of December 31, 2019, the Company had no commitment to any portfolio of short-term leases.

D. Cash flow related to the lessee and lease activities

Cash flows used in the Company lease activities in 2019 totaled NT$11,515 thousand.

(2) The Company as a lessee - Operating leases (applicable for disclosures related to IAS 17)

The Company has entered into commercial leases on plant, office and parking space. These leases have an average life of three to thirty years with no renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as of December 31, 2019 and 2018 are as follows:

	2019.12.31	2018.12.31
Not later than one year	(Note)	$10,161
Later than one year and not later than five years	(Note)	31,547
Later than five years	(Note)	151,796
Total	(Note)	$193,504

Recognition of operating lease expenses is as follows:

	2019	2018
Minimum rental lease payment	(Note)	$10,450

Note: The Company has adopted IFRS 16 as of January 1, 2019 and selected not to recompile the comparison period pursuant to the transitional treatment of IFRS 16.

22. Summary statement of employee benefits, depreciation and amortization expense by function:

Function / Type	2019			2018		
	Fees that belong to operational costs	Fees that belong to operational expenses	Total	Fees that belong to operational costs	Fees that belong to operational expenses	Total
Employee benefits expense						
Salaries expense	$220,325	$185,752	$406,077	$235,521	$205,253	$440,774
Labor and health insurance premiums	23,551	16,488	40,039	22,562	15,714	38,276
Pension expense	11,435	8,840	20,275	11,195	8,689	19,884
Remuneration to directors	-	3,092	3,092	-	4,256	4,256
Other employee benefits expense	8,792	4,922	13,714	9,313	4,879	14,192
Depreciation expenses	78,753	43,156	121,909	65,539	42,700	108,239
Amortization expense	246	8,444	8,690	-	8,785	8,785

Note: The number of employees in this year and the previous year was 628 and 634, respectively, among which the number of directors who were not concurrent employees was 6.

Note 2: The average employee benefits expense for the current year and the previous year was NT$772 thousand and NT$817 thousand, respectively. The average salaries expense for the current year and the previous year was NT$653 thousand and NT$702 thousand, respectively. The average salary adjustment was (7)%.

The Company's Articles of Association 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 Company'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 2019, the Company allocated 12 and 3 percent of the profits as compensation to employees and remuneration to directors and supervisors with amount of NT$12,367 thousand and NT$3,092 thousand recognized under salary expenses, respectively. If the Board of directors resolves to distribute employee compensation in the form of stock, the closing price on the day prior to the Board resolution shall be used as the basis for calculating the number of shares to be distributed. Any difference between the estimated amount and the distributed amount determined by the Board shall be recognized as profit or loss of the following year. The Company, as per resolution of the Board of Directors on March 19, 2020, disbursed NT$12,367 thousand and NT$3,092 thousand, respectively, as employees' compensation and directors' and supervisors' remuneration.

The actual amounts of 2018 compensation to employees and remuneration to directors and supervisors distributed were NT$17,025 thousand and NT$4,256 thousand, respectively. There was no material difference between the amount paid and the amount recognized as expenses in the financial statements for the year ended December 31, 2018.

23. Non-operating revenue and expenses

(1) Other income

	2019	2018
Interest income	$3,104	$1,340
Rent income	1,045	-
Remuneration to directors and supervisors	1,815	2,310
Subsidy income	6,097	102
Compensation income	2,466	270
Exhibition income	5,758	5,486
Other income - Others	33,388	31,737
Total	$53,673	$41,245

(2) Other gains and losses

	2019	2018
Gain (loss) on disposal of property, plant and equipment	$(818)	$(711)
Foreign exchange loss - Net	(11,347)	(106)
Gain (loss) on financial assets at FVTPL (Note)	(355)	5,277
Other expenses	-	(144)
Total	$(12,520)	$4,316

Note: Financial assets mandatorily measured at fair value through profit or loss.

(3) Finance costs

	2019	2018
Interest on bank loans	$(11,129)	$(10,342)
Interest on bonds payable	(7,460)	(5,510)
Interest on lease liabilities	(2,250)	(Note)
Total	$(20,839)	$(15,852)

Note: The Company has adopted IFRS 16 as of January 1, 2019 and selected not to recompile the comparison period pursuant to the transitional treatment of IFRS 16.

24. Components of the other comprehensive income (loss)

Components of other comprehensive income for the year ended December 31, 2019 are as follows:

	Arising during the period	Current reclassification adjustment	Other comprehensive income	Income tax benefit (expense)	After-tax amount
Items not reclassified to profit or loss:					
Remeasurement of defined benefit plan	$1,206	$-	$1,206	$-	$1,206
Unrealized valuation gain (loss) on investments in equity instruments at FVTOCI	126	-	126	-	126
Shares of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(647)	-	(647)	-	(647)
Items that might be reclassified to profit or loss:					
Shares of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(41,134)	-	(41,134)	-	(41,134)
Total	$(40,449)	$-	$(40,449)	$-	$(40,449)

Components of other comprehensive income for the year ended December 31, 2018 are as follows:

	Arising during the period	Current 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 subsidiaries, associates and joint ventures accounted for using 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 equity method	(8,599)	-	(8,599)	-	(8,599)
Total	$(13,736)	$-	$(13,736)	$-	$(13,736)

25. Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company'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, 2019 and 2018 are as follows:

Income tax expense recognized in profit or loss

	2019	2018
Current income tax expense (benefit):		
Current income tax expense	$32,387	$13,794
Adjustments on current income tax of prior periods	(11,155)	(4,779)
Deferred tax income:		
Deferred tax income relating to origination and reversal of temporary differences	(22,215)	(5,644)
Deferred income tax relating to changes in tax rates or new taxes	-	(10,333)
Income tax benefit	$(983)	$(6,962)

Income tax recognized in other comprehensive income

	2019	2018
Deferred income tax expense:		
Remeasurement of defined benefit plan	$-	$-
Unrealized valuation gain (loss) on investments in equity instruments at FVTOCI	-	-
Conversion difference of financial statements of foreign operations	-	-
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:

	2019	2018
Profit before tax from continuing operations	$87,601	$120,592
Tax at the domestic tax rates applicable of profits in the country of main operation	$17,520	$24,118
Tax effect of revenues exempt from taxation	(8,675)	(8,393)
Tax effect of expenses not deductible for tax purposes	1,643	6,592
Tax effect of deferred income tax assets/liabilities	(316)	(14,167)
Deferred income tax relating to changes in tax rates or new taxes	-	(10,333)
Adjustments on current income tax of prior periods	(11,155)	(4,779)
Total income tax benefit recognized in profit or loss	$(983)	$(6,962)

Balance of deferred income tax assets (liabilities) related to the following items:
2019

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Unrealized transactions between Company entities	$57,916	$(8,504)	$-	$49,412
Unrealized exchange gain (loss)	657	2,618	-	3,275
Long-term deferred income	15,958	(1,273)	-	14,685
Foreign entities' investment losses accounted for using equity method	-	29,374	-	29,374
Deferred income tax (expense)/benefit		$22,215	$-	
Deferred income tax assets/(liabilities), net	$74,531			$96,746
Information on the balance sheet is shown as follows:				
Deferred income tax assets	$74,531			$96,746
Deferred income tax liabilities	$-			$-

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			$-

Unrecognized deferred income tax assets

As of December 31, 2019 and 2018, 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$52,569 thousand and NT$49,179 thousand, respectively.

Business income tax approval status

By the end of December 31, 2019, the Company's business income tax settlement and declaration were approved by the tax authority as of 2017.

26. 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.

	2019	2018
(1) Basic earnings per share		
Net income (NT$ thousands)	$88,584	$127,554
Preferred dividends	(4,808)	-
Net income used in calculating basic earnings per share	$83,776	$127,554
Weighted average number of common stocks for basic earnings per share (thousands stock)	79,701	79,408
Basic earnings per share (NT$)	$1.05	$1.61

	2019	2018
(2) Diluted earnings per share		
Net income used in calculating basic earnings per share (NT$ thousands)	$83,776	$127,554
Interest of convertible bonds (NT$ thousands)	5,968	4,408
Net income attributable to common shareholders of the parent company after dilution effect adjustment (NT$ thousands)	$89,744	$131,962
Weighted average number of common stocks for basic earnings per share (thousands stock)	79,701	79,408
Dilution effect:		
Convertible bonds (thousands stock)	8,696	5,333
Restricted employee shares (thousands stock)	162	638
Weighted average number of common stocks after dilution effect adjustment (thousands stock)	88,559	85,379
Diluted earnings per share (NT$)	$1.01	$1.55

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.

27. Changes in ownership equity of subsidiaries

Disposal of the subsidiary' shares issued

On June 12, 2019, the Company disposed of 24.5% of A-Spine Asia Co., Ltd.'s voting shares, reducing its ownership to 74.9%. Cash considerations received from non-controlling interests totaled NT$257,529 thousand, and the net carrying amount of the additional sale of related equity was NT$93,197 thousand. The difference between the consideration received and the equity sold was NT$164,332 thousand, which has been recognized as "capital surplus - difference between the proceeds received from acquisition or disposal of a subsidiary and its carrying amount."

New shares of subsidiaries not subscribed in proportion of shares held

UOC Europe Holding SA issued new shares on April 2, 2018. As a result, the Company's ownership in this subsidiary increased to 92%. Cash acquired by the Company 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 Company'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 Company's ownership in this subsidiary increased to 96%. Cash acquired by the Company 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 Company'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

UOC Europe Holding SA issued new shares on April 15, 2019. Cash acquired by the Company from capital increase was CHF 2,000 thousand (NT$61,712 thousand), and the carrying amount of UOC Europe Holding SA's net assets (originally acquired without goodwill) was CHF 12,285 thousand (NT$379,877 thousand). The Company's ownership in this subsidiary remained 96%, so there was no adjustment relevant to the Company's interest in UOC Europe Holding SA.

United Biomech Japan issued new shares on January 2, 2018. As a result, the Company's ownership increased to 68%. Cash acquired by the Company 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 Company'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 Company did not take part in the subscription, its ownership decreased to 51%. Cash acquired by the Company 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 JPY 116,550 thousand (NT$31,166 thousand). Adjustments relevant to the decrease of the Company's interest in United Biomech Japan are 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 Company's ownership increased to 53%. Cash acquired by the Company 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 Company'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

United Biomech Japan issued new shares on February 20, 2019. As a result, the Company's ownership increased to 56%. Cash acquired by the Company from capital increase was JPY 25,500 thousand (NT$7,109 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY 29,623 thousand (NT$8,377 thousand). Adjustments relevant to the increase of the Company's interest in United Biomech Japan are as follows:

	2019
Cash capital increase acquired by the subsidiary	$-
Increase in non-controlling interests	2,877
Difference recognized in retained earnings in equity	$2,877

United Biomech Japan issued new shares on May 15, 2019. As a result, the Company's ownership increased to 60%. Cash acquired by the Company from capital increase was JPY 89,000 thousand (NT$24,893 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY (798) thousand (NT$(222) thousand). Adjustments relevant to the increase of the Company's interest in United Biomech Japan are as follows:

	2019
Cash capital increase acquired by the subsidiary	$-
Increase in non-controlling interests	4,568
Difference recognized in retained earnings in equity	$4,568

United Biomech Japan issued new shares on June 17, 2019. As a result, the Company's ownership increased to 65%. Cash acquired by the Company from capital increase was JPY 70,000 thousand (NT$20,429 thousand), and the carrying amount of United Biomech Japan's net assets (originally acquired without goodwill) was JPY 66,819 thousand (NT$19,411 thousand). Adjustments relevant to the increase of the Company's interest in United Biomech Japan are as follows:

	2019
Cash capital increase acquired by the subsidiary	$-
Increase in non-controlling interests	6,180
Difference recognized in retained earnings in equity	$6,180

A-Spine Asia Co., Ltd. issued new shares on November 16, 2018. As a result, the Company's ownership decreased to 99.4%. Cash acquired by the Company 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 Company's interest in A-Spine Asia are 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 Company during the financial reporting period are as follows:

Name of related-party and relationship

Name of related party	Relationship with the Company
UOC America Holding Corporation	Subsidiary of the Company
United Orthopedic Corporation (Suisse) SA	Subsidiary of the Company
United Orthopedic Corporation (France)	Subsidiary of the Company
United Biomech Japan Inc.	Subsidiary of the Company
A-SPINE Asia Co., Ltd.	Subsidiary of the Company
Shinva United Orthopedic Corporation	Affiliate of the Company
United Medical Co., Ltd.	Affiliate of the Company
United Medical Instrument Co., Ltd.	Affiliate of the Company
United Medical Technology (Shanghai) Co., Ltd.	Affiliate of the Company
Changgu Biotech Corporation	The Company is a shareholder of the company.
Peng, Yu-Hsin	Deputy General Manager of the Company

Major transactions with related parties

1. Sales

	2019	2018
Subsidiary		
UOC America Holding Corporation	$126,368	$102,961
United Orthopedic Corporation (Suisse) SA	106,800	252,692
United Biomech Japan Inc.	30,620	27,424
A-SPINE Asia Co., Ltd.	6,596	370
Affiliate of the Company		
Shinva United Orthopedic Corporation	125,429	26,035
United Medical Co., Ltd.	9,841	22,144
United Medical Instrument Co., Ltd.	134,807	394,665
United Medical Technology (Shanghai) Co., Ltd.	2,693	4,667
The Company is a shareholder of the company		
Changgu Biotech Corporation	1,210	2,084
Total	$544,364	$833,042

The sales price offered by the Company 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 Company may offer a longer credit period in consideration of the related parties' funding conditions.

2. Purchase

2. Purchase

	2019	2018
Subsidiary		
UOC America Holding Corporation	$1,847	$806
United Orthopedic Corporation (Suisse) SA	9,267	243
United Biomech Japan Inc.	51	5
A-SPINE Asia Co., Ltd.	705	-
Affiliate of the Company		
United Medical Co., Ltd.	40,134	70,797
United Medical Instrument Co., Ltd.	15,568	-
Total	$67,572	$71,851

The purchase price offered by the Company to related parties is marked up at the cost, and the payment term is to pay on a monthly basis.

3. Operating expenses - Rent expense

	2019.12.31	2018.12.31
Subsidiary		
A-Spine Asia Co., Ltd.	$96	$96

4. Accounts receivable - Related parties

	2019.12.31	2018.12.31
Subsidiary		
UOC America Holding Corporation	$78,551	$46,086
United Orthopedic Corporation (Suisse) SA	218,537	326,686
United Biomech Japan Inc.	52,649	28,172
A-SPINE Asia Co., Ltd.	1,341	377
Affiliate of the Company		
Shinva United Orthopedic Corporation	29,914	15,427
United Medical Co., Ltd.	2,597	268
United Medical Instrument Co., Ltd.	21,440	182,817
United Medical Technology (Shanghai) Co., Ltd.	-	4,699
The Company is a shareholder of the company		
Changgu Biotech Corporation	748	1,039
Total	405,777	605,571
Less: Loss allowance	-	-
Net	$405,777	$605,571

5. Accounts payable - Related parties

	2019.12.31	2018.12.31
Affiliate of the Company		
United Medical Co., Ltd.	$6,937	$1,364
United Medical Instrument Co., Ltd.	14,299	-
Total	$21,236	$1,364

6. Other receivables - Related parties

	2019.12.31	2018.12.31
Subsidiary		
UOC America Holding Corporation	$14	$121
United Orthopedic Corporation (Suisse) SA	13	240
United Orthopedic Corporation (France)	-	403
United Biomech Japan Inc.	-	307
A-SPINE Asia Co., Ltd.	1,815	245
Affiliate of the Company		
Shinva United Orthopedic Corporation	5,409	-
Total	$7,251	$1,316

7. Other payables - Related parties

	2019.12.31	2018.12.31
Affiliate of the Company		
United Medical Co., Ltd.	$32	$245

8. Lending funds

For details on loans provided by the Company to subsidiaries, please refer to Table 1.

9. Guarantees and endorsements

For details on the Company's guarantee and endorsement due to subsidiaries' bank loans, please refer to Table 2.

10. Property transactions

The Company 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 Company has collected proceeds of NT$83 thousand. The Company had no property transaction in 2019.

11. Remunerations for the Company's key management

	2019	2018
Short-term employee benefits	$21,727	$24,105
Share-based payments	4,428	2,805
Total	$26,155	$26,910

12. Other income

	2019	2018
Affiliate of the Company		
Shinva United Orthopedic Corporation	$22,693	$-

According to the agreement signed on January 23, 2019, the Company provided technical services for Shinva United Orthopedic Corporation at an amount of RMB 6,000 thousand. In 2019, the Company received NT$26,940 thousand (RMB 6,258 thousand) for provision of technical services, and, after deducting unrealized profit or loss of NT$4,247 thousand (RMB 987 thousand), recognized NT$22,693 thousand (RMB 5,271 thousand) in other income.

VIII. Pledged Assets

The following table lists assets of the Company pledged as collaterals:

Item	Carrying amount 2019.12.31	Carrying amount 2018.12.31	Secured liabilities
Financial assets measured at amortized cost- non-current	$12,704	$6,714	Performance bond and import tariff
Property, plant and equipment - Land and building	390,880	399,822	Comprehensive credit line
Property, plant and equipment - Machinery and equipment	115,357	273,291	Comprehensive credit line
Total	$518,941	$679,827	

IX. Commitments and Contingencies

None.

X. Loss due to Major Disasters

None.

XI. Significant Subsequent Events

None.

XII. Others

1. Categories of financial instruments

Financial assets

	2019.12.31	2018.12.31
Financial assets at FVTPL:		
Mandatorily measured at FVTPL	$-	$40
Financial assets at FVTOCI	2,083	1,957
Financial assets measured at amortized cost:		
Cash and cash equivalents (exclude cash on hand)	299,521	278,972
Financial assets measured at amortized cost	12,704	6,714
Notes receivable	3,041	3,735
Accounts receivables (including related parties)	668,376	851,616
Other receivables (including related parties)	8,967	7,647
Subtotal	992,609	1,148,684
Total	$994,692	$1,150,681

Financial liabilities

	2019.12.31	2018.12.31
Financial liabilities at fair value through profit or loss:		
Mandatorily measured at FVTPL	$3,250	$-
Financial liabilities measured at amortized cost:		
Short-term loans	-	743,619
Short-term notes and bills payable	-	49,984
Receivables (including related parties)	343,389	298,210
Bonds payable (including bonds due within one year)	869,984	391,223
Long-term loans (including loans due within one year)	263,109	450,889
Lease liabilities	141,630	(Note)
Subtotal	1,618,112	1,933,925
Total	$1,621,362	$1,933,925

Note: The Company has adopted IFRS 16 as of January 1, 2019 and selected not to recompile the comparison period pursuant to the transitional treatment.

2. Financial risk management objectives and policies

The Company's principal financial risk management objective is to manage the market risk, credit risk, and liquidity risk related to its operating activates. The Company identifies measures and manages the aforementioned risks based on the Company's policy and risk appetite.

The Company 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 Company 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 Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign operations.

The Company has certain foreign currency receivables denominated in the same foreign currency as certain foreign currency payables; therefore, natural hedge is achieved. The Company also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as 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 Company.

The foreign currency sensitivity analysis of the impact of possible changes in foreign exchange rates on the Company's profit and equity is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company'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 NTD appreciates/depreciates against USD by 1%, the Company's profit or loss for the years ended December 31, 2019 and 2018 will increase/decrease by NT$2,106 thousand and NT$2,018 thousand, respectively.

When NTD appreciates/depreciates against RMB by 1%, the Company's profit or loss for the years ended December 31, 2019 and 2018 will increase/decrease by NT$507 thousand and NT$3,132 thousand, respectively.

When NTD appreciates/depreciates against EUR by 1%, the Company's profit or loss for the years ended December 31, 2019 and 2018 will increase/decrease by NT$2,711 thousand and NT$3,128 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 Company'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 Company 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 Company's profit or loss for the years ended December 31, 2019 and 2018 will decrease/increase by NT$49 thousand and NT$959 thousand, respectively.

Equity price risk

The fair value of unlisted equity securities held by the Company is susceptible to equity price risk arising from uncertainties about future values of the investment securities. The unlisted equity securities held by the Company are included in the category of fair value measurement through other comprehensive income. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on equity portfolio are submitted to the Company's senior management on a regular basis. The Board of Directors shall review all equity investment decisions and approve where appropriate.

For unlisted shares included in equity investments at fair value through other comprehensive income, when the price of such equity securities increased/decreased by 1%, it had no material impact on the Company's interests for the years ended December 31, 2019 and 2018.

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 Company 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 Company 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 Company'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, 2019 and 2018, the Company's total ten receivables from customers accounted for 65% and 77% of the Company's total 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 Company's treasury in accordance with the Company's policy. The Company 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 Company maintains its financial flexibility through the use of cash and cash equivalents, bank loans, convertible bonds, and leases. The table below summarizes the maturity profile of the Company'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 liabilities

	< 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
2019.12.31					
Bank loans	$37,599	$75,199	$37,040	$116,810	$266,648
Payables	343,389	-	-	-	343,389
Convertible bonds	400,000	-	500,000	-	900,000
Lease liabilities	10,039	14,845	13,215	145,391	183,490
2018.12.31					
Bank loans	$787,214	$205,761	$78,462	$128,971	$1,200,408
Short-term notes and bills payable	49,984	-	-	-	49,984
Payables	298,210	-	-	-	298,210
Convertible bonds	-	400,000	-	-	400,000

6. Reconciliation of liabilities from financing activities

Reconciliation of liabilities for the years ended December 31, 2019:

	Short-term loans	Short-term notes and bills payable	Long-term loans	Corporate bonds payable	Deposits received	Lease liabilities (Note)	Total liabilities from financing activities
2019.1.1	$743,619	$49,984	$450,889	$391,223	$198	$149,399	$1,785,312
Cash flows	(743,619)	(49,984)	(187,780)	500,000	496	(10,321)	(491,208)
Non-cash changes	-	-	-	(21,239)	-	2,552	(18,687)
2019.12.31	$-	$-	$263,109	$869,984	$694	$141,630	$1,275,417

Note: The Company has adopted IFRS 16 as of January 1, 2019 and selected not to recompile the comparison period pursuant to the transitional treatment.

Reconciliation of liabilities for the years ended December 31, 2018:

	Short-term loans	Short-term notes and bills payable	Long-term loans	Corporate bonds payable	Deposits received	Total liabilities from financing activities
2018.1.1	$500,000	$-	$193,749	$385,713	$154	$1,079,616
Cash flows	243,619	49,984	257,140	-	44	550,787
Non-cash changes	-	-	-	5,510	-	5,510
2018.12.31	$743,619	$49,984	$450,889	$391,223	$198	$1,635,913

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

Other than cash and cash equivalents, accounts receivable, short-term loans, accounts payable, other current liabilities, long-term loans, and lease liabilities whose carrying amount approximate their fair value, the fair value of the Company's financial assets and financial liabilities measured at amortized cost is listed below:

	Carrying amount		Fair value	
	2019.12.31	2018.12.31	2019.12.31	2018.12.31
Financial assets				
Financial assets measured at amortized cost	$12,704	$6,714	$12,704	$6,714
Financial liabilities				
Bonds payable	869,984	391,223	869,984	391,223

(3) Fair value hierarchy for financial instruments

Please refer to Note 12(9) for the fair value measurement hierarchy for financial instruments of the Company.

8. Derivative financial instruments

As of December 31, 2019 and 2018, the Company's derivative financial instruments (including embedded derivatives) that were not eligible for hedge accounting and were outstanding are listed as follows:

Embedded derivatives

The Company has issued convertible corporate bonds and identified with embedded derivatives, which were already detached from the main contract and measured at fair value through profit or loss. Please refer to Note 6(14) for information on the contract of this transaction.

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 Company 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 Company 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, 2019:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Measured at FVTOCI				
Equity instruments at fair value through other comprehensive income	$-	$-	$2,083	$2,083
Liabilities measured at fair value				
Financial liabilities at FVTPL				
Convertible corporate bonds embedded derivatives	-	3,250	-	3,250

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
Measured at FVTOCI				
Equity instruments at fair value through other comprehensive income	-	-	1,957	1,957

Transfers between Level 1 and Level 2 fair value hierarchy

For the years ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value hierarchy for the Company's assets and liabilities measured at fair value on a recurring basis.

Details on changes in assets and liabilities measured at fair value on a recurring basis under Level 3 fair value hierarchy

For the Company's assets and liabilities measured at fair value on a recurring basis under Level 3 fair value hierarchy, adjustments to beginning and ending balances are as follows:

	Measured at FVTOCI
	Stock
2019.1.1	$1,957
Total profit (loss) recognized for 2019:	
Recognized in other comprehensive income	
(Recognized in "unrealized valuation loss (gain) on equity investments measured at FVTOCI")	126
2019.12.31	$2,083

	Measured at FVTOCI
	Stock
2018.1.1	$2,850
Total profit (loss) recognized for 2018:	
Recognized in other comprehensive income	
(Recognized in "unrealized valuation loss (gain) on equity investments measured at FVTOCI")	(2,819)
Acquired in 2018	1,926
2018.12.31	$1,957

Information on material unobservable input of Level 3 fair value hierarchy

For the Company's assets measured at fair value on a recurring basis under Level 3 fair value hierarchy, the material unobservable input used toward fair value measurement is as follows:

December 31, 2019:

	Valuation technique	Material unobservable input	Quantitative information	Relationship between input and fair value	Sensitivity analysis of relationship between input and fair value
Financial assets:					
Measured at FVTOCI					
Stock	Market approach	Illiquidity discount	30%	The higher the illiquidity discount, the lower the fair value estimate	When the percentage of illiquidity increases (decreases) by 10%, the equity in the Company will decrease by NT$297 thousand (increase by NT$298 thousand).

December 31, 2018:

	Valuation technique	Material unobservable input	Quantitative information	Relationship between input and fair value	Sensitivity analysis of relationship between input and fair value
Financial assets:					
Measured at FVTOCI					
Stock	Market approach	Illiquidity discount	30%	The higher the illiquidity discount, the lower the fair value estimate	When the percentage of illiquidity increases (decreases) by 10%, the equity in the Company will decrease by NT$278 thousand (increase by NT$281 thousand).

Valuation of Level 3 fair value measurement

The Company's finance department is responsible to verify the fair value by using independent sources to make the valuations close to the market status and confirming that the sources used are independent, reliable, consistent with other resources, and representative of executable prices. The finance department is also responsible to analyze the changes in the value of assets and liabilities to be remeasured or reassessed according to the Company's accounting policies on each reporting day to make sure that the valuations are reasonable.

(3) Fair value hierarchy of the Company's assets and liabilities not measured at fair value but for which the fair value shall be disclosed

December 31, 2019:

	Level 1	Level 2	Level 3	Total
Liabilities not measured at fair value but for which the fair value is disclosed:				
Bonds payable	$-	$869,984	$-	$869,984

December 31, 2018:

	Level 1	Level 2	Level 3	Total
Liabilities not measured at fair value but for which the fair value is disclosed:				
Bonds payable	$-	$391,223	$-	$391,223

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: NT$ thousands

	2019.12.31		
	Foreign currency	Exchange rate	NT$
Financial assets			
Monetary items:			
USD	$7,809	29.9300	$233,730
EUR	8,615	33.3900	287,646
JPY	275,474	0.2740	75,480
CHF	11	30.7800	343
CNY	15,450	4.2800	66,128
GBP	9	39.1500	334
Financial liabilities			
Monetary items:			
USD	$771	30.0300	$23,152
EUR	488	33.7900	16,500
JPY	3,410	0.2780	948
CHF	-	31.0700	-
CNY	3,561	4.3300	15,419
GBP	4	39.5700	138
CAD	-	23.1000	-

	2018.12.31		
	Foreign currency	Exchange rate	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

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

As entities within the Company 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, 2019 and 2018, the Company's foreign exchange gain (loss) amounted to NT$(11,347) thousand and NT$(106) 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 Company'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 Company manages and adjusts its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

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(14), and 12.

2. Information on investees: Please refer to Table 6.

3. Information on investments in China: Please refer to Table 7.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 1. Funds lending to others as of December 31, 2019:

Unit: NT$1,000

No.	Lender	Borrower	Accounting item	Whether the recipient is a related party	Highest amount in current period	Ending balance (approved limit by the Board of Directors)	Actual expenditures	Interest range	Capital financing feature	business transactions	Reason for short-term lending	Appropriated amount for loss allowance	Collateral		Cap of capital financing for individual parties	Total loan limit
													Name	Value		
0	United Orthopedic Corporation	UOC America Holding Corporation	Account receivable - related parties	Yes	$40,000	$40,000	$-	1.3214% – 1.40%	Business features	$126,368	None	$-	None	$-	$126,368	$271,263
0	United Orthopedic Corporation	United Orthopedic Corporation (Suisse) SA	Long-term accounts receivable - related	Yes	92,775	92,775	39,183	1.3214% – 1.40%	Business features	106,800	None	-	None	-	106,800	271,263
1	UOC America Holding Corporation	UOC USA, Inc	Account receivable - related parties	Yes	40,000	40,000	-	1.3214% – 1.40%	Business features	126,358	None	-	None	-	126,358	135,631
2	United Orthopedic Corporation (Suisse) SA	United Orthopedic	Accounts receivable - related parties	Yes	46,388	46,388	-	1.3214% – 1.40%	Business features	100,616	None	-	None	-	100,616	135,631

Note 1: The Company's total limit on lending to others and borrowings from others shall not exceed 30% of the Company's total paid-in capital.

Note 2: The limit of funds lending to an individual party shall not exceed the total amount of business transactions over the past fiscal year.

Note 3: The subsidiaries' total limit on lending to others and borrowings from others shall not exceed 15% of the Company's total paid-in capital.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 2. Endorsements/Guarantees for others as of December 31, 2019:

Unit: NT$1,000

No.	Endorsement /guarantee provider Name	Endorsement/guarantee recipient		Limit on endorsement /guarantee provided to an individual party	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	Endorsement /guarantee provided by parent company to subsidiary	Endorsement /guarantee provided by subsidiary to parent company	Endorsements /Guarantees for entities in Mainland China
		Name	Relationship										
0	United Orthopedic Corporation	UOC USA, Inc.	Wholly owned sub-subsidiary	$271,263	$231,225	$231,225	$184,980	$-	9.55%	$452,104	Y	N	N

Note 1: The Company's total amount of endorsements/guarantees shall not exceed 50% of the Company's total paid-in capital, and the endorsements/guarantees endorsement/guarantee provided to an individual party shall not exceed 30% of the Company's total paid-in capital.

Table 3. Marketable securities (excluding equity investments in subsidiaries, associates, and joint ventures) held as of December 31, 2019:

Unit: NT$1,000

Holding company	Category and name of security (Note 1)	Relationship with the security issuer (Note 2)	Accounting item	Ending balance				Note(Note 4)
				Number of shares (thousand shares)	Carrying amount (Note 3)	Shareholding ratio	Fair value	
United Orthopedic Corporation	Changgu Biotech Corporation	The Company is a shareholder of the invested company.	Equity instruments measured at fair value through other comprehensive income - non-current	478	$2,083	19.26%	$2,083	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 off the book value. If the account 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 impairment 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.

Notes to Individual Financial Statements of United Orthopedic Corporation (continued)

(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 details				Transactions with terms different from others		Bills and accounts receivable (payable)		Note
			Purchase (sales)	Amount	Ratio 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	$(126,368)	8.02%	90 days	Note	Note	$78,551	11.58%	
UOC America Holding Corporation	United Orthopedic Corporation	Parent/Subsidiary Company	Purchase	$126,368	98.6%	90 days	Note	Note	$(78,551)	100.00%	
United Orthopedic Corporation	United Orthopedic Corporation (Suisse) SA	Parent/Sub-subsidiary	Sales	$(106,800)	6.78%	270 days	Note	Note	$218,536	32.21%	
United Orthopedic Corporation (Suisse) SA	United Orthopedic Corporation	Parent/Sub-subsidiary	Purchase	$106,800	92.52%	120 days	Note	Note	$(218,536)	99.80%	
United Orthopedic Corporation	Lianmao Medical Treatment Utensils Technology (Shanghai) Co., Ltd.	Associates	Sales	$(134,807)	8.55%	90 days	Note	Note	$21,440	3.16%	
Lianmao Medical Treatment Utensils (Shanghai) Co., Ltd.	United Orthopedic Corporation	Associates	Purchase	$134,807	86.01%	90 days	Note	Note	$(21,440)	92.08%	
United Orthopedic Corporation	Shinva United Orthopedic Corporation	Associates	Sales	$(125,428)	7.96%	90 days	Note	Note	$29,914	4.41%	
Shinva United Orthopedic Corporation	United Orthopedic Corporation	Associates	Purchase	$125,428	64.31%	90 days	Note	Note	$(29,914)	73.79%	
UOC America Holding Corporation	UOC USA, Inc.	Subsidiary/Sub-subsidiary Company	Sales	$(126,358)	98.56%	90 days	Note	Note	$78,564	100.00%	
UOC USA, Inc.	UOC America Holding Corporation	Subsidiary/Sub-subsidiary Company	Purchase	$126,358	100.00%	90 days	Note	Note	$(78,564)	100.00%	
United Orthopedic Corporation (Suisse) SA	United Orthopedic Corporation (France)	Associates	Sales	$(100,616)	62.64%	90 days	Note	Note	$50,638	78.89%	
United Orthopedic Corporation (France)	United Orthopedic Corporation (Suisse) SA	Associates	Purchase	$100,616	80.99%	90 days	Note	Note	$(50,638)	91.00%	

Note: There is no significant difference from the normal trade.

Table 5: Accounts receivable from related-parties of at least NT$100 million or 20% of the paid-in capital as of December 31, 2019:

Unit: NT$1,000

Company with accounts receivable	Related-party	Relationship	Accounts receivable balance from related parties	Turnover rate	Overdue accounts receivable from related-party		Accounts receivable from related-party Amount received in subsequent period	Appropriated amount of allowance for doubtful accounts
					Amount	Handling method		
United Orthopedic Corporation	United Orthopedic Corporation (Suisse) SA	Parent/Sub-subsidiary	$218,536	0.39	$-	-	$42,471	$-

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Attached table 6: Related information on investments of the Company and its 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 and product	Original investment amount		Holding at the end of the period			Net income (loss) of the investee	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	UOC America Holding Corporation	British Virgin	Holding company, trade	356,086	232,933	11,500	100%	88,137	(53,997)	(53,997)	Subsidiary
				(USD 11,500)	(USD 7,500)	(Note 7)					
United Orthopedic Corporation	UOC Europe Holding SA	Switzerland	Holding Company	420,142	358,430	13,500	96%	180,102	(35,400)	(43,390)	Subsidiary
				(CHF 13,500)	(CHF 11,500)	(Note 2)					
United Orthopedic Corporation	United Biomech Japan	Japan	Trading, wholesale	105,294	58,261	3,695	65%	(7,720)	(56,653)	(34,452)	Subsidiary
				(JPY 369,500)	(JPY 192,500)	(Note 4)					
United Orthopedic Corporation	A-Spine Asia Co., Ltd	Taiwan	Trade, wholesale, manufacture	386,480	650,480	10,089,640	75%	574,061	56,562	43,379	Subsidiary
						(Note 5)					
UOC America Holding Corporation	UOC USA, Inc.	USA	Trading, wholesale	356,086	232,933	2,300	100%	154,511	(53,138)	(53,138)	Sub-subsidiary
				(USD 11,500)	(USD 7,500)	(Note 1)					
UOC Europe Holding SA	United Orthopedic Corporation (Suisse) SA	Switzerland	Trading, wholesale	49,987	49,987	1,550	100%	22,482	(35,810)	(35,810)	Sub-subsidiary
				(CHF 1,550)	(CHF 1,550)	(Note 2)					
UOC Europe Holding SA	United Orthopedic Corporation (France)	France	Trading, wholesale	310,304	245,891	8,782	100%	252,039	3,541	3,541	Sub-subsidiary
				(EUR 8,782)	(EUR 6,900)	(Note 3)					
UOC Europe Holding SA	United Orthopedic Corporation (Belgium)	Belgium	Trading, wholesale	17,194	-	500	100%	14,504	(2,347)	(2,347)	Sub-subsidiary
				(EUR 500)	-	(Note 3)					
A-Spine Asia Co., Ltd	Beiling Medical Co., Ltd.	Taiwan	Trading, wholesale	4,800	4,800	480,000 (Note 6)	100%	11,313	296	296	Sub-subsidiary

Note 1: The face value per share is USD 5,000.

Note 2: The face value per share is CHF 1,000.

Note 3: The face value per share is EUR 1,000.

Note 4: The face value per share is JPY 50,000.

Note 5: The face value per share is NTD 10, and the purchase price per share is NTD 60.

Note 6: The face value per share is TWD 10.

Note 7: The face value per share is USD 1,000.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 7. Information on investments in Mainland China:

Unit: NTD 1,000/USD 1,000

Invested company in China	Main business and product	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 beginning of the period	Net income (loss) of the investee	Percentage of ownership directly or indirectly held by the Company	Profit or loss for the current period	Ending investment Carrying amount	Accumulated repatriation of investment income as of the end of the period
					Remit	Recollect						
Shinva United Orthopedic Corporation	Manufacturing and sales of implants and artificial joints	$1,436,694 (CNY 300,000 thousand)	(Note 1)	$487,520 (CNY 98,000 thousand)	$216,944 (CNY 49,000 thousand)	$-	$704,464 (CNY 147,000 thousand) (Note 2)	$(39,029)	49%	$(19,124)	$564,805	$-

Cumulative investment remitted from Taiwan to Mainland China as of the end of the period	Investment amount authorized by the Investment Commission, MOEA	Investment cap for investments in China set by the Investment Commission
$704,464 (CNY 147,000 thousand)	$704,464 (CNY 147,000 thousand)	$1,760,356

Note 1: Direct investment in China.

Note 2: Including technical value of RMB 30,000 thousand.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Table 7-1. Significant transactions directly or indirectly invested by the Company through third-region companies and reinvested companies in China:

(1) Purchase amount and percentage, as well as ending balance of accounts payable and percentage:

Unit: NT$1,000

Year	Related-party	Name	Purchase amount	Percentage to the Company's purchase	Ending balance of accounts payable	Percentage %
2019	United Orthopedic Corporation	Medical Instrument Ltd.	$40,134	11.20%	$6,937	8.43%
2019	United Orthopedic Corporation	Lianmao Medical Treatment Utensils Technology (Shanghai) Co., Ltd.	15,568	4.35%	14,299	17.37%

(2) Sales amount and percentage, as well as ending balance of accounts receivable and percentage:

Year	Related-party	Name	Sales amount	Percentage to the Company's sales	Ending balance of accounts receivable	Percentage %
2019	United Orthopedic Corporation	Lianmao Medical Treatment Utensils Technology (Shanghai) Co., Ltd.	$134,807	8.55%	$21,440	3.16%
2019	United Orthopedic Corporation	Medical Instrument Ltd.	9,841	0.62%	2,597	0.38%
2019	United Orthopedic Corporation	Shinva United Orthopedic Corporation	125,429	7.96%	29,914	4.41%
2019	United Orthopedic Corporation	United Medical Technology (Shanghai) Co., Ltd.	2,693	0.17%	-	0.00%

(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 profit or loss of this period and financial status:

None

VI. Impacts of Financial Difficulties the Company and Affiliated Companies Have for the Most Recent Year and up to the Publication Date of the Annual Report on the Company's Financial Status: 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	2019	2018	Increases (decreases)	Increase/decrease ratio (%)
Current assets	2,314,600	2,381,014	(66,414)	-2.79
Investment using equity method	564,805	378,707	186,098	49.14
Property, plant and equipment	1,488,791	1,491,953	(3,162)	0.21
Intangible assets	500,251	471,893	28,358	6.01
Other assets (Note 1)	376,157	126,265	249,892	197.91
Total assets	5,244,604	4,849,832	394,772	8.14
Current liabilities	1,262,533	1,600,383	(377,850)	-21.11
Non-current liabilities	1,048,143	999,091	49,052	4.91
Total liabilities	2,310,676	2,599,474	(288,798)	-11.11
Capital	904,209	804,509	99,700	12.39
Capital reserve	1,827,683	1,280,536	547,147	42.73
Retained earnings	217,357	242,255	(24,898)	-10.28
Other equity	(122,523)	(95,482)	27,041	28.32
Non-controlling equity	107,202	18,540	88,662	478.22
Total equity	2,933,928	2,250,358	683,570	30.38

Note 1. Other assets include non-current financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, financial assets measured at amortized cost, right-of-use assets, 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 investment accounted for using the equity method: Mainly due to the increase in investment in Mainland China this year.
Increase in other assets: This is mainly due to the YoY increase in right-of-use assets and deferred tax assets, which were reclassified from leased assets as required by IFRS16 Leases in the year.
Decrease in current liabilities: Mainly due to the YoY decrease in short-term borrowings in this year and the increase in corporate bonds that will mature or due to exercise the put options within one year or one operating cycle.
Increase in capital reserve: Mainly due to the issuance of class A preferred shares this year
Decrease in other equity: Mainly due to the increase in the translation of the financial statements of foreign operations in this period compared to last year.
Increase in non-controlling interest: Mainly due to the disposal of shares of the subsidiary A-Spine Asia Co., Ltd. this year.
Increase in total equity: Mainly due to the issuance of class A preferred shares this year.

● Impact of changes in the financial status in 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	2019	2018	Increases (decreases)	Increase/decrease ratio (%)
Current assets	1,707,132	1,873,328	(166,196)	-8.87
Equity-accounted investments	1,407,105	1,191,337	215,768	18.11
Property, plant and equipment	1,013,441	1,008,810	4,631	0.46
Intangible assets	109,440	76,478	32,962	43.10
Other assets (Note 1)	318,319	118,567	199,752	168.47
Total assets	4,555,437	4,268,520	286,917	6.72
Current liabilities	808,161	1,143,067	(334,906)	-29.30
Non-current liabilities	920,550	893,635	26,915	3.01
Total liabilities	1,728,711	2,036,702	307,991	15.12
Capital	904,209	804,509	99,700	12.39
Capital reserve	1,827,683	1,280,536	547,147	42.73
Retained earnings	217,357	242,255	(24,898)	-10.28
Other equity	(122,523)	(95,482)	27,041	28.32
Total equity	2,826,726	2,231,818	594,908	26.66

Note 1. Other assets include non-current financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, financial assets measured at amortized cost, right-of-use assets, 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 intangible assets: Mainly due to the increase in capitalization of research and development expenses compared with last year in accordance with the provisions of paragraph 57 of IAS 38 Intangible Assets in this year.
  Increase in other assets: This is mainly due to the YoY increase in right-of-use assets and deferred tax assets, which were reclassified from leased assets as required by IFRS16 Leases in the year.
  Decrease in current liabilities: Mainly due to the YoY decrease in short-term borrowings in this year and the increase in corporate bonds that will mature or due to exercise the put options within one year or one operating cycle.
  Increase in capital reserve: Mainly due to the issuance of class A preferred shares this year.
  Decrease in other equity: Mainly due to the increase in the translation of the financial statements of foreign operations in this period compared to last year.
  Increase in total equity: Mainly due to the issuance of class A preferred shares this year.
- Impact of changes in the financial status in 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	2019	2018	Increases (decreases)	Ratio of the changes (%)
Net revenue	2,436,700	2,332,247	104,453	4.48
Operating costs	714,201	716,500	(2,299)	-0.32
Gross profit before adjustment	1,722,499	1,615,747	106,752	6.61
Realized (unrealized) sales profit and loss	14,042	(14,261)	28,303	-198.46
Gross profit	1,736,541	1,601,486	135,055	8.43
Operating expenses	1,655,106	1,516,686	138,420	9.13
Operating profit	81,435	84,800	(3,365)	-3.97
Non-operating income and expenses	9,306	22,649	(13,343)	-58.91
Net income before tax	90,741	107,449	(16,708)	-15.55
Income tax expenses	(18,955)	(4,957)	13,998	282.39
Net profit (loss) in this period	71,786	102,492	(30,706)	-29.96
Comprehensive income or loss (net value after tax) in this period	(39,094)	(13,412)	(25,682)	-191.49
Total amount of comprehensive profit/loss in the year	32,692	89,080	(56,388)	-63.30
Net profit attributable to parent company in this period	88,584	127,554	(38,970)	-30.55
Total net profits and losses attributable to parent company in this period	48,135	113,818	(65,683)	-57.71

- Change analysis for the increase/decrease ratio that is more than 20% for the most recent two years
  Increase in realized (unrealized) sales profit and loss: Mainly due to the increase in realized sales profit and loss of subsidiaries in mainland China and Europe.
  Increase in non-operating income and expenses: Mainly due to exchange losses caused by exchange rate fluctuations in this year, YoY increase in interest expenses as a result of the increase in short-term borrowings in the previous three quarters, and YoY increase in losses from investment in mainland China.
  Increase in income tax expenses: Mainly due to fewer income tax expenses last year as a result of reversal of income tax expenses due to realized investment losses in mainland China last year.
  Decrease in net profit for the period: Mainly due to the increase in the expenses and non-operating expenses of operating units.
  The decrease in other comprehensive income (net value after tax) in this period: Mainly due to the increase in the exchange loss on translation of the financial statements of foreign operations, and the depreciation of CNY profits earned by investees in China that are accounted for using equity method.
  Decrease in total comprehensive income: Mainly due to decrease in net profits as a result of an increase in expense and non-operating expense of operating units and sales units; a decrease in other comprehensive income as a result of an increase in exchange losses on translation of financial statements of foreign operations and decrease in profits denominated in CNY earned by investees accounted for using equity method in China as a result of depreciation of that currency.
  Decrease in net profit attributable to shareholders of the parent company in the current period: Mainly due to the decrease in sales revenue and the increase in operating expenses in mainland China.
  Decrease in total comprehensive income attributable to the shareholders of the parent company in the current period: Mainly due to the exchange losses caused by the depreciation of the CNY, in which profits of investees accounted for using equity method in China are denominated.
- 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: The Company expands in Europe, U.S, Japan, and China market through products of its proprietary brand and its continuous launch of new products is expected to sustain the growth.
- Impact of changes in the financial status in the most recent two years: No significant impact on the financial status.
- Future response plan: Not applicable.

Analysis of changes in gross profit: Increase/decrease ratio has not reached 20%, analysis is not needed.

Individual Financial Statement

Comparison and analysis table for financial performance

Unit: NT$1,000

Item \ Year	2019	2018	Increases (decreases)	Ratio of the changes (%)
Net revenue	1,576,184	1,789,376	(213,192)	-11.91
Operating costs	734,972	823,810	(88,838)	-10.78
Gross profit before adjustment	841,212	965,566	(124,354)	-12.88
Realized (unrealized) profits from sales	46,769	(50,872)	97,641	-191.93
Gross profit	887,981	914,694	(26,713)	-2.92
Operating expenses	713,110	698,317	14,793	2.12
Operating profit	174,871	216,377	(41,506)	-19.18
Non-operating income and expenses	(87,270)	(95,785)	(8,515)	-8.89
Net income before tax	87,601	120,592	(32,991)	-27.36
Income tax benefit	983	6,962	(5,979)	-85.88
Net profit (loss) in this period	88,584	127,554	(38,970)	-30.55
Comprehensive income or loss (net value after tax) in this period	(40,449)	(13,736)	(26,713)	-194.47
Total amount of comprehensive profit/loss in the year	48,135	113,818	(65,683)	-57.71

- Change analysis for the increase/decrease ratio that is more than 20% for the most recent two years
  Decrease in realized (unrealized) sales profit and loss: Mainly due to the increase in realized sales profit and loss of subsidiaries in Europe as a result of an increase in operating revenue.
  Decrease in net income before tax: Mainly due to the increase in expenses of business units conducting business expansion and the increase in exchange losses as a result of depreciation of USD, EUR, and CNY.
  Decrease in income tax benefits: Mainly due to fewer income tax expenses last year as a result of reversal of income tax expenses due to realized investment losses in mainland China last year.
  An income tax benefit was incurred due to reversal of temporary deferred tax of subsidiaries in the US and Japan; nonetheless, the overall income tax benefits decreased due to the aforementioned factors.
  Decrease in net profits in this period: Mainly due to the increase in expenses of business units conducting business expansion, the increase in exchange losses as a result of depreciation of USD, EUR, and CNY, and the decrease in income tax benefits.
  The decrease in other comprehensive income (net value after tax) in the current period: Mainly due to the depreciation of CNY profits earned by investees in China that are accounted for using equity method.
  Decrease in comprehensive income in the period: Mainly due to an increase in expenses of business units conducting business expansion, the increase in exchange losses as a result of depreciation of USD, EUR, and CNY, a decrease in income tax benefits, and depreciation of CNY earnings of investees in mainland China that are accounted for using equity method.
- 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: The Company expands in Europe, U.S, Japan, and China market through products of its proprietary brand and its continuous launch of new products is expected to sustain the growth.
- Impact of changes in the financial status in the most recent two years: No significant impact on the financial status.
- Future response plan: Not applicable.

Analysis of changes in gross profit: Increase/decrease ratio has not reached 20%, analysis is not needed.

III. Cash Flow

Consolidated Financial Statement

Cash Flow Analysis

Unit: NT$1,000

Cash and cash equivalents at beginning of year	Annual net cash flow from operating activities	Net cash inflow from investment and financing activities	Cash surplus (deficit)	Remedial measures for cash inadequacy	
				Investing plan	Financing plan
528,484	519,094	(508,456)	539,122	None	None

- Analysis of the changes in cash flow this year:
  The change in cash inflow from operating activities is mainly due to the decrease in accounts receivable-related parties, inventories and profits.
  The change in cash outflows from investment activities is mainly used for investment in Mainland China.
  The change in cash inflow from financing activities is mainly due to the issuance of convertible corporate bonds and Class A preferred shares; the change in cash outflow from financing activities is due to the repayment of short-term and long-term borrowings and the payment 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

Cash and cash equivalents at beginning of year	Annual net cash flow from operating activities	Net cash inflow from investment and financing activities	Cash surplus (deficit)	Remedial measures for cash inadequacy	
				Investing plan	Financing plan
279,681	553,971	(534,124)	299,528	None	None

- Analysis of the changes in cash flow this year:
  The change in cash inflow from operating activities is mainly due to the decrease in accounts receivable-related parties, inventories and profits.
  The change in cash outflows from investment activities is mainly used for investment in Mainland China and prepayments for acquisition of equipment.
  The change in cash inflow from financing activities is mainly due to the issuance of convertible corporate bonds and Class A preferred shares, and disposal of shares of A-Spine Asia, a subsidiary of the Company; the change in cash outflow from financing activity is due to the repayment of short-term and long-term borrowings and the payment 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
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	65%	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.	75%	A-Spine Asia enters the market of spinal products in response to the Company's strategy for business diversification	Actively expands spinal products in Taiwan and international markets.	None	None
Shinva United Orthopedic Corporation	49%	Shinva United Orthopedic Corporation works with 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.	It has built a comprehensive marketing system and domestic products to enhance market shares.	None	None
UOC USA, Inc. (Note 1)	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 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 (France)(Note2)	100%	Market proximity	Adopt dealer or direct selling model due to regional characteristics to actively expand the market shares.	None	None
United Orthopedic Corporation (Belgium) (Note2)	100%	Market proximity	Adopt dealer or direct selling model due to regional characteristics to actively expand the market shares.	None	None
Boiling Medical Co., Ltd. (Note 3)	100%	A-Spine Asia enters the market of spinal products in response to the Company's strategy for business diversification	Actively expands the spine products into the Taiwan market.	None	None

Note 1: It is a reinvestment of UOC America Holding Corporation, a subsidiary of the Company.
Note 2: It is a reinvestment of UOC Europe Holding SA, a subsidiary of the Company.
Note 3: It is a 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

In recent years, interest rates in the global market have been declining, so the risk is relatively low. The USD is expected to decline, so the increase rate should not be high in a mild and gradual manner. 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 Company's sales revenue denominated in foreign currency in 2019 accounted for 78.9% of the total sales revenue, while the purchase of major imported raw materials denominated in foreign currency accounted for 69.5% of the annual purchases. 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	2019	2018	2017
Net currency exchange gain (loss)	(3,195)	4,796	(29,542)
Net revenue	2,436,700	2,332,247	1,972,592
Operating (loss) gain	81,435	84,800	161,936
Net foreign exchange profits (losses)/Net operating income profits (losses)	-0.13%	0.21%	-1.50%
Net foreign exchange profits (losses)/Operating profits (losses)	-3.92%	5.66%	-18.24%

(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 an 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 quotation 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, 2020, the actual loan amount taken out by the Company in accordance of the Procedures for Loaning of Funds for the reinvestment of Sun UNITED Orthopedic Corporation (Suisse) SA was Euro 693,000,

(3) As of March 31, 2020, the Company has taken out a loan from the bank that is worth US$6 million with joint liability for UOC USA, Inc, a re-invested company registered under a subsidiary, in accordance with the Operating Procedures for Endorsements and Guarantees.

(4) The Company engaged in derivative product transactions. As of March 31, 2020, the Company has an unsettled amount of Euro 300,000 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
Second generation reconstruction joint replacements for oncology	Mass production under development	2,700,000	2020/06/30	Mirror-surface polishing for tibial baseplates in response to increasingly rigorous regulatory requirements
Double movement acetabular system and tool	Mass production under development	2,600,000	2020/06/30	Integrated inner lining and ball-shaped design for inner mirror surface polishing
Cement-free tibia base	Mass production under development	800,000	2020/06/30	Mirror-surface polishing for tibial baseplates
Additional specifications for the U-Motion II Acetabular System	In design	1,300,000	2020/12/30	Metal acetabular cup strength design
Non-cement fixed femoral end implants	In design	5,600,000	2021/9/30	Small-sized cobalt molybdenum-coated sintering process development and asymmetrical surface sintering process development
Modularized knee test items	In design	6,500,000	2020/12/30	Design of modular combination mechanisms for plastic injection molding
Shoulder joint system and tools	In design	5,300,000	2021/9/30	Development of Ellipsoid Mirror Surface Manufacturing Process Combined with Mechanism Design
3D printed acetabular system and tool	In design	5,100,000	2021/06/30	Microporous structural design
Modeled stalk handle and tool	In design	6,800,000	2021/3/31	Combination mechanisms and corresponding corrosion phenomenon

(IV) Impacts of changes in the important domestic and foreign policies and laws on the Company's finance and business, and the countermeasures: None

(V) Impacts of recent technological and market changes on the Company's finance and business, and response measures: None.

(VI) Impacts of corporate image change on risk management and response measures: Ever since the Company has been listed in September 2004, the Company has always upheld professionalism 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) Potential risks and rewards associated with M&A and the response measures: Not applicable.

(VIII) Potential impact associated with capacity expansion and the response measures: Not applicable.

(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 holding over 10% of stake in the Company and the countermeasures:
The Directors, Supervisors or shareholders holding more than 10% of the Company's shares do not have any substantial 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) Effects of, risks relating to and response to the changes in management rights: Not applicable.

(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 holding more than 10% of this Company's shares in the last two years and up to the publication date of this Annual Report that might have a significant impact on shareholders' equity or securities prices: None.

(XIII) Information security risk assessment and countermeasures: For the implementation of information security management, the Company has formulated an "Information Security Management Policy" to ensure the security of information such as data, systems, equipment and networks.
The Company has established network firewalls, anti-virus software, mail security mechanisms, system backup mechanisms, and regularly performs

system updates and other operations to ensure the safety of information equipment in the Company. In response to information security risks, the Company carries out relevant countermeasures and preventive methods to enhance colleagues 'information security skills and thereby reduce information security risks.

(XIV) Other Material Risks and Response Measures: None.

VII. Other Important Matters: None.

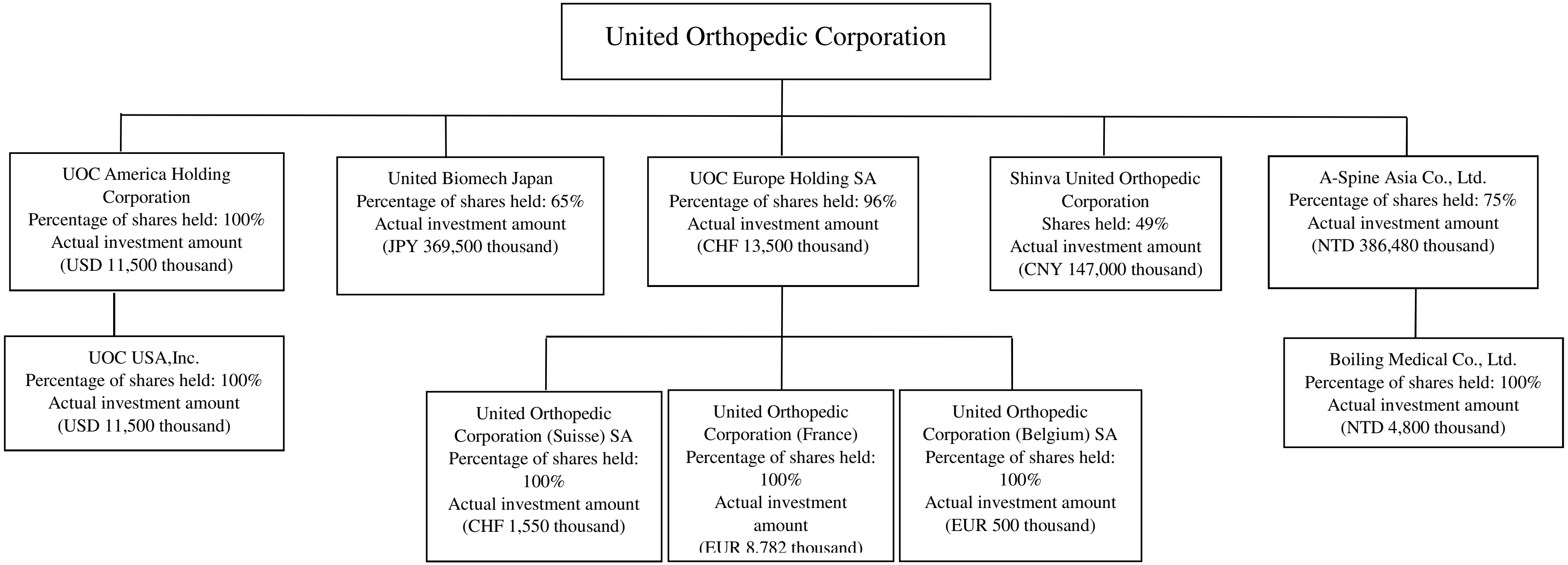
Chapter 8 Special Items

I. Relevant Information on Affiliated Companies

(I) Consolidated Operation Report of Affiliated Companies

1. Organization structure of affiliated companies

December 31, 2019



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
UOC America Holding Corporation	2012.05.10	Note 4(1)	USD 11,500	Investment and trading business
UOC USA, Inc.	2012.07.19	Note 4(2)	USD 11,500	Sales of medical equipment
UOC Europe Holding SA	2016.05.23	Note 4(3)	CHF13,500	Investment and trading business
United Orthopedic Corporation (Suisse) SA	2016.06.29	Note 4(4)	CHF 1,550	Sales of medical equipment
United Orthopedic Corporation (France)	2016.07.05	Note 4(5)	EUR 8,782	Sales of medical equipment
United Orthopedic Corporation (Belgium) SA	2019.07.11	Note 4(6)	EUR 500	Sales of medical equipment
United Biomech Japan	2016.08.05	Note 4(7)	JPY 369,500	Sales of medical equipment
Shinva United Orthopedic Corporation	2016.01.13	Note 4(8)	CNY 300,000	Manufacture and sale of orthopedic equipment
A-Spine Asia Co., Ltd.	2001.06.15	Note 4(9)	TWD 134,710	Manufacturing and sales of medical equipment
Boiling Medical Co., Ltd.	2010.04.13	Note 4(10)	TWD 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) Portcullis TrustNet Chambers, P.O.Box 3444, Road Town, Tortola, British Virgin Islands.
(2) 20 Fairbanks, Suite 173, Irvine CA 92618
(3) Avenue Général Guisan 60A, 1009 Pully
(4) Avenue Général Guisan 60A, 1009 Pully, Switzerland.
(5) 7 Allée des Peupliers, 54180 Houdemont, France
(6) 5000 Namur, Rue du Lombard, numéro 67.
(7) 2-9-40 Kitayuki Nishi-ku Ginyo Building
(8) No. 1999, Luxin Road, High-tech Zone, Zibo City, Shandong Province
(9) 20F., No. 80, Chenggong Road, Yonghe District, New Taipei City
(10) 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 US. The marketing model adopted is a 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, which in turn invested in United Orthopedic Corporation (Suisse) SA and United Orthopedic Corporation (France). Indirect investment in United Orthopedic Corporation (Belgium) SA in 2019 was made to establish sales bases in Switzerland, France, and Belgium in Europe region. By simultaneously adopting the distribution method and direct sales method, the Company aimed to achieve sustained high growth in the European market and accelerate the expansion of market share. At the same time, the Company invested in United Biomech Japan in 2016 as a sales and operation base in Japan. United Biomech Japan has completed product registration and started marketing and sales activities in 2019. 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 M&A 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	Shareholding ratio
UOC America Holding Corporation	Director	Lin, Yan-Shen	11,500	100%
UOC USA, Inc.	Chairman	Lin, Yan-Shen	2,300	100%
UOC Europe Holding SA	Chairman	Lin, Yan-Shen	13,500	96%
United Orthopedic Corporation (Suisse) SA	General Manager	Bopp François	1,550	100%
United Orthopedic Corporation (France)	General Manager	Bopp François	8,782	100%
United Orthopedic Corporation (Belgium) SA	General Manager	Bopp François	500	100%
United Biomech Japan	Chairman	Tetsuhiko Niwa	3,695	65%
Shinva United Orthopedic Corporation	Chairman	Cui Hongtao	147,000,000	49%
A-Spine Asia Co., Ltd.	Chairman	Lin, Yan-Shen	10,089,640	75%
Boiling Medical Co., Ltd.	Chairman	Chen, Wei-Hsiung	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/NT$)
UOC America Holding Corporation	356,086	263,519	78,827	184,692	128,199	(827)	(53,997)	–
UOC USA,Inc.	356,086	463,664	303,047	160,617	317,322	(39,569)	(53,138)	–
UOC Europe Holding SA	436,770	340,692	807	339,885	0	(786)	(35,400)	–
United Orthopedic Corporation (Suisse) SA	49,987	302,999	280,516	22,483	160,627	(57,827)	(35,810)	–
United Orthopedic Corporation (France)	310,304	353,595	101,561	252,034	300,687	(7,649)	3,541	–
United Orthopedic Corporation (Belgium) SA	17,194	19,352	4,849	14,503	0	(2,331)	(2,347)	–
United Biomech Japan	81,230	108,113	100,120	7,993	28,204	(58,517)	(56,653)	–
Shinva United Orthopedic Corporation	1,436,694	1,316,048	88,322	1,227,726	155,470	(6,255)	(39,029)	–
A-Spine Asia Co., Ltd.	134,710	536,831	234,603	302,228	397,409	71,778	56,562	4.20
Boiling Medical Co., Ltd.	4,800	20,697	9,384	11,313	43,840	385	296	–

Note 1: All affiliated companies shall be disclosed regardless of size.

Note 2: If the affiliate company is a foreign company, all relevant numbers shall be expressed in NTD by using the exchange rate as of the publish date.

Note3: The exchange rates for the balance sheet are as the following: 1 USD = 29.980 NTD, 1 CNY = 4.305 NTD
1 EUR = 33.590 NTD, 1 CHF = 30.925 NTD,
1 EUR = 1.0862 CHF, 1 CHF = 0.9207 EUR
1 JPY = 0.276 NTD

The exchange rates for the income statement are as follows: 1 USD = NTD 30.3475; CNY 1 = NTD 4.3885.
1 EUR = 34.395 NTD, 1 CHF = 31.055 NTD
1 EUR = 1.1075 CHF, 1 CHF = 0.9033 EUR
1 JPY = 0.2771 NTD

(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