Stock Code:3081

(English Translation of Financial Statements and Report Originally Issued in Chinese)

LANDMARK OPTOELECTRONICS CORPORATION

Financial Statements

December 31, 2017 and 2016
(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

To the Board of Directors of LandMark Optoelectronics Corporation:

Opinion

We have audited the financial statements of LandMark Optoelectronics Corporation("the Company"), which comprise the balance sheets as of December 31, 2017 and 2016, the statement of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Valuation of inventories

Please refer to Note 4(g) "Inventories", Note 5 "Significant accounting assumptions and judgments, and major sources of estimation uncertainty," and Note 6(d) "Inventories" of the financial statements.

Description of key audit matter:

The inventories of the Company are measured at the lower of cost and net realizable value. Since the technology in the optoelectronic industry changes rapidly, the old models may quickly be replaced by new ones, resulting in a risk wherein the carrying value of inventories may exceed its net realizable value. Therefore, we determined that the assessment of the valuation of inventories was a key audit matter.

How the matter was addressed in our audit:

- Inspected the inventory aging report and analyzed the trends of inventory aging.
- Evaluated the rationality of the Company's accounting policies, such as the policy of provision for inventory valuation and obsolescence.
- Understood whether the valuation of inventory was performed in accordance with the Company's policy.
- Assessed the provision for inventory valuation and obsolescence by categorizing the inventories, including sampling and inspecting the accuracy of the inventory aging report and net realizable value of inventories.
- Performed a retrospective review to comparatively analyze the historical accuracy of judgments with reference to actual disposal to assess the rationality of the judgments and assumptions of the current period.
- Assessed whether the disclosure of provision for inventory valuation and obsolescence was appropriate.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Hui Yuan Chen and Chen Lung Hsu.

KPMG

Tainan, Taiwan (the Republic of China)
February 6, 2018

Notes to Readers

The accompanying financial statements are intended only to present the statement of financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit (or review) such financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

LANDMARK OPTOELECTRONICS CORPORATION

Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2017		December 31, 2016	
	Assets	**Amount**	**%**	**Amount**	**%**
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 2,043,337	50	2,557,441	63
1150	Notes receivable, net (note 6(c))	33,378	1	35,077	1
1170	Accounts receivable, net (note 6(c))	381,408	10	216,576	5
1310	Inventories (note 6(d))	217,709	6	183,798	5
1410	Prepayments	12,050	-	3,583	-
1470	Other current assets	10,839	-	5,237	-
1476	Other financial assets－current (note 6(c) and 8)	16,002	-	8,993	-
		2,714,723	67	3,010,705	74
	Non-current assets:				
1600	Property, plant and equipment (note 6(e) and 9)	1,111,531	28	1,046,376	26
1780	Intangible assets (note 6(f))	13,602	-	-	-
1840	Deferred tax assets (note 6(i))	12,795	-	9,343	-
1980	Other financial assets－non-current (note 8)	11,959	-	3,442	-
1900	Other non-current assets (note 6(g))	185,477	5	8,671	-
		1,335,364	33	1,067,832	26
	Total assets	$ 4,050,087	100	4,078,537	100

		December 31, 2017		December 31, 2016	
	Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
	Current liabilities:				
2120	Financial liabilities at fair value through profit or loss－current (note 6(b))	$ -	-	353	-
2150	Notes payable	30,678	1	57,076	1
2170	Accounts payable	52,365	1	29,751	1
2200	Other payables (note 6(h))	182,489	5	164,809	4
2230	Current tax liabilities	48,252	1	84,350	2
2300	Other current liabilities	11,686	-	5,980	-
		325,470	8	342,319	8
	Non-Current liabilities:				
2570	Deferred tax liabilities (note 6(i))	-	-	700	-
2640	Net defined benefit liability－non-current (note 6(h))	3,421	-	4,111	-
		3,421	-	4,811	-
	Total liabilities	328,891	8	347,130	8
	Equity attributable to owners of the company (note 6(i)(j)(k)):				
3110	Capital stock	905,732	22	912,577	22
3200	Capital surplus	1,655,253	41	1,665,787	41
	Retained earnings:				
3310	Legal reserve	342,342	9	254,797	6
3350	Unappropriated earnings	857,797	21	1,144,248	28
		1,200,139	30	1,399,045	34
3491	Deferred compensation cost arising from issuance of restricted stock	(39,928)	(1)	(99,821)	(2)
3500	Treasury stock	-	-	(146,181)	(3)
	Total equity	3,721,196	92	3,731,407	92
	Total liabilities and equity	$ 4,050,087	100	4,078,537	100

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

LANDMARK OPTOELECTRONICS CORPORATION

Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		2017		2016	
		Amount	**%**	**Amount**	**%**
4100	**Operating revenue (note 6(m))**	2,038,618	100	2,110,063	100
5000	**Operating costs (note 6(d)(h)(k)(n), 7 and 12)**	935,581	46	851,700	40
5900	**Gross profit**	1,103,037	54	1,258,363	60
6000	**Operating expenses (note 6(c)(h)(k)(n), 7 and 12):**				
6100	Selling and marketing expenses	45,809	2	38,359	2
6200	General and administrative expenses	86,430	4	63,930	3
6300	Research and development expenses	177,295	9	107,675	5
		309,534	15	209,964	10
6900	**Operating income**	793,503	39	1,048,399	50
7000	**Non-operating income and expenses (note 6(o)):**				
7100	Interest income	11,077	1	10,616	-
7020	Other gains and losses	(13,244)	(1)	(1,433)	-
		(2,167)	-	9,183	-
7900	**Profit before income tax**	791,336	39	1,057,582	50
7950	**Income tax expenses (note 6(i))**	135,767	7	182,135	9
	Net profit	655,569	32	875,447	41
8300	**Other comprehensive income (note 6(h)(i)):**				
8310	**Items that will not be reclassified subsequently to profit or loss:**				
8311	Remeasurements of the defined benefit plans	457	-	36	-
8349	Income tax relating to items that will not be reclassified subsequently to profit or loss	(78)	-	(6)	-
8300	**Other comprehensive income, net of tax**	379	-	30	-
8500	**Total comprehensive income**	**$ 655,948**	**32**	**875,477**	**41**
	Earnings per share (in dollars), after tax (note 6(l))				
9750	**Basic earnings per share**	**$**	**7.27**		**9.64**
9850	**Diluted earnings per share**	**$**	**7.23**		**9.59**

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

LANDMARK OPTOELECTRONICS CORPORATION

Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Capital stock	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Unappropriated earnings	Deferred compensation cost	Treasury stock	Total equity
Balance at January 1, 2016	$ 699,098	1,527,434	155,904	1,206,581	-	-	3,589,017
Net profit	-	-	-	875,447	-	-	875,447
Other comprehensive income	-	-	-	30	-	-	30
Total comprehensive income	-	-	-	875,477	-	-	875,477
Appropriation of 2015 earnings in 2016:							
Legal reserve	-	-	98,893	(98,893)	-	-	-
Cash dividends	-	-	-	(629,188)	-	-	(629,188)
Stock dividends	209,729	-	-	(209,729)	-	-	-
Share-based payment transactions─restricted stock	3,750	138,353	-	-	(124,776)	-	17,327
Compensation cost arising from restricted stock	-	-	-	-	24,955	-	24,955
Treasury stock repurchased	-	-	-	-	-	(146,181)	(146,181)
Balance at December 31, 2016	**912,577**	**1,665,787**	**254,797**	**1,144,248**	**(99,821)**	**(146,181)**	**3,731,407**
Net profit	-	-	-	655,569	-	-	655,569
Other comprehensive income	-	-	-	379	-	-	379
Total comprehensive income	-	-	-	655,948	-	-	655,948
Appropriation of 2016 earnings in 2017:							
Legal reserve	-	-	87,545	(87,545)	-	-	-
Cash dividends	-	-	-	(724,717)	-	-	(724,717)
Compensation cost arising from restricted stock	-	-	-	-	59,893	-	59,893
Treasury stock repurchase	-	-	-	-	-	(1,335)	(1,335)
Treasury stock retired	(6,500)	(10,879)	-	(130,137)	-	147,516	-
Restricted stock repurchased and retired	(345)	345	-	-	-	-	-
Balance at December 31, 2017	**$ 905,732**	**1,655,253**	**342,342**	**857,797**	**(39,928)**	**-**	**3,721,196**

Note: For the years ended December 31, 2017 and 2016, the remuneration to directors amounted to $8,699 and $11,622, respectively, and the remuneration to employees amounted to $69,592 and $92,974, respectively, which had been deducted by calculating each period profit.

See accompanying notes to financial statements.

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LANDMARK OPTOELECTRONICS CORPORATION

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from operating activities:		
Profit before tax	$ 791,336	1,057,582
Adjustments:		
Income and expenses having no effect on cash flows:		
Depreciation expenses	274,384	210,338
Amortization expenses	1,868	1,029
Unrealized net losses on change in fair value of financial liabilities at fair value through profit or loss	-	353
Interest income	(11,077)	(10,616)
Allowance for doubtful accounts	1,242	2,155
Compensation cost arising from restricted stocks	59,893	24,955
Loss on disposal of property, plan and equipment	-	31
Property, plant and equipment transferred to expenses	1,248	-
Unrealized foreign exchange losses (gains)	2,740	(4,120)
Total income and expenses having no effect on cash flows	330,298	224,125
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease in notes receivable	1,434	203,838
Decrease (increase) in accounts receivable	(168,675)	152,051
Increase in inventories	(33,911)	(41,721)
Increase in prepayments	(8,867)	(702)
Increase in other current assets	(5,602)	(5,134)
Decrease (increase) in other financial assets－current	(466)	222
Total changes in operating assets	(216,087)	308,554
Changes in operating liabilities:		
Decrease in financial liabilities at fair value through profit or loss－current	(353)	(1,616)
Increase (decrease) in notes payable	(32,357)	11,525
Increase (decrease) in accounts payable	22,890	(10,521)
Increase (decrease) in other payables	9,776	(12,002)
Increase in other current liabilities	5,706	2,218
Decrease in defined benefit liability－non-current	(233)	(294)
Total changes in operating liabilities	5,429	(10,690)
Net changes in operating assets and liabilities	(210,658)	297,864
Total adjustments	119,640	521,989
Cash generated from operations	910,976	1,579,571
Interest received	11,077	10,616
Income tax paid	(176,095)	(238,278)
Net cash generated from operating activities	745,958	1,351,909
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(318,892)	(250,603)
Acquisition of intangible assets	(14,974)	-
Increase in other financial assets－current and non-current	(15,060)	(3,485)
Increase in other non-current assets	(183,114)	(6,099)
Net cash used in investing activities	(532,040)	(260,187)
Cash flows from financing activities:		
Cash dividends	(724,717)	(629,188)
Issuance (repurchase) of restricted stock	(1,818)	19,252
Repurchase of treasury stock	(1,335)	(146,181)
Net cash used in financing activities	(727,870)	(756,117)
Effects of exchange rate changes on balance of cash held in foreign currencies	(152)	958
Net increase (decrease) in cash and cash equivalents	(514,104)	336,563
Cash and cash equivalents at the beginning of year	2,557,441	2,220,878
Cash and cash equivalents at the end of year	**$ 2,043,337**	**2,557,441**

See accompanying notes to financial statements.

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

LandMark Optoelectronics Corporation (the "Company") was incorporated on June 2, 1997 as a company limited by shares under the laws of the Republic of China (ROC). The Company is primarily engaged in the manufacturing, processing and selling of optical semi-conductors, laser diodes, and high brightness InAlGaP/AlGalnAs.

In response to the government's policy about enterprises consolidating or merging operations, the Company improves its capital structure, reduces its operating cost, and promotes reasonable operation. In accordance with the Business Mergers and Acquisitions Act, the Company merged with " TJ Optoelectronics Corporation" on January 1, 2008, the basis date of the merger which was decided through a special meeting of the shareholders.

The Company's stock was listed as a general stock on the Taipei Exchange on July 22, 2015.

(2) Approval date and procedures of the financial statements:

The financial statements were authorized for issuance by the Board of the Company on February 6, 2018.

(3) New standards, amendments and interpretations adopted:

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 " Presentation of Financial Statements-Disclosure Initiative	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 " Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014

(Continued)

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 39 " Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Company believes that the adoption of the above IFRSs would not have a material impact on its financial statements.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017. In addition, based on the announcement issued by the FSC on December 12, 2017, the Company can, and therefore, elected to early adopt the amendments to IFRS 9 "Prepayment features with negative compensation":

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification and measurement－Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables.

2) Impairment-Financial assets and contact assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and

- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

Based on its assessment, the Company does not believe that the new impairment requirements under IFRS 9 would have had a material impact.

(Continued)

LANDMARK OPTOELECTRONICS CORPORATION

Notes to the Financial Statements (Continued)

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Company's assessment included an analysis to identify data gaps against current processes and the Company plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

  – The determination of the business model within which a financial asset is held.

  – The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

  – The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

1) Sales of goods

For the sale of products, revenue is currently recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

Based on its assessment, the Company consider that the point in time at which the related risks and rewards of ownership transfer and the point in time at which the customer obtains control of the goods are similar. The Company believes that the new requirements would not have a material impact.

2) Transition

The Company plans to adopt IFRS 15 using the cumulative effect method. Therefore, the comparative information will not be restated. The cumulative effect of initially applying IFRS 15 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2018. The Company plans to use the practical expedients of IFRS 15, under which, for contracts that are completed at the date of the initial application (i.e. 1 January 2018) will not be restated.

Based on its assessment, the Company does not believe that the revenue recognition under IFRS 15 would have had a material impact.

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Those which may be relevant to The Company are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: ・For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term. ・A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

The Company is evaluating the impact on its financial position and financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Company completes its evaluation.

(4) Summary of significant accounting policies:

The accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the Englisg and Chinese language consolidated financial statements, the Chinese version shall prevail.

The significant accounting policies presented in the financial statements are summarized as follows. The accounting policies have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

(a) Statement of compliance

These annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “ the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as “the IFRS endorsed by the FSC”).

(b) Basis of preparation

(1) Basis of measurement

The financial statements have been prepared on a historical cost basis except for the following material items in the balance sheet:

(Continued)

(i) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments);

(ii) The net defined benefit liability is recognized as the present value of the defined benefit obligation, less pension fund assets at fair value.

(2) Functional and presentation currency

The financial statements are presented in New Taiwan dollars, which is the Company's functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) **Foreign currency**

Transactions in foreign currencies are translated to the functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period adjusted for the effective interest and payments during the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of transaction.

Foreign currency differences arising from retranslation are recognized in profit or loss, except for the translation differences of the following, which are recognized in other comprehensive income:

(1) Available-for-sale financial instrument;

(2) Hedge of a net investment in a foreign operation; and

(3) Qualified cash flow hedge.

(d) **Classification of current and non-current assets and liabilities**

An asset is classified as current when:

(1) The asset is expected to be realized or is intended to be sold or consumed in the normal operating cycle;

(2) The asset is held primarily for the purpose of trading;

(3) The asset is expected to be realized within twelve months after the reporting period; or

(4) The asset is cash or a 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.

All other assets are classified as non-current.

A liability is classified as current when:

(1) The liability is expected to be settled in the normal operating cycle;

(2) The liability is held primarily for the purpose of trading;

(Continued)

(3) The liability is due to be settled within twelve months after the reporting period; or

(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 issuance of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(e) **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 that are subject to an insignificant risk of changes in value.

Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash and cash equivalents.

(f) **Financial instruments**

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

(1) Financial assets

Financial assets are classified into the following category: loans and receivables.

(i) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables and other receivables. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets is accounted for using trade-date accounting.

Interest income is recognized in profit or loss, and is included in other income.

(ii) Impairment of financial assets

A financial asset which is not measured at fair value is impaired if, and only if, there is any objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that loss event (or events) has an impact on the future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics. In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than those suggested by historical trends.

The carrying amount of a financial asset is reduced for an impairment loss except for trade receivables, whose impairment loss is reflected through an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off against the allowance account and is recognized in profit or loss. Any subsequent recovery of a written-off receivable is charged to the allowance account. Changes in the allowance account are recognized in profit or loss.

Impairment losses and recoveries are recognized in profit or loss, under administrative expenses for accounts receivable and under other gains and losses for other financial assets.

(iii) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the asset are terminated, or when all the risks and rewards of ownership of the financial assets are substantially transferred.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity–unrealized gains or losses on available-for-sale financial assets" in profit or loss is included in other gains and losses.

The Company separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

(2) Financial liabilities and equity instruments

(i) Classification of debt or equity instruments

Debt or equity instruments issued are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

Equity instruments include shares and any other instrument that evidences a residual interest in any entity. Equity instruments issued are recognized as the amount of consideration received less the direct cost of issuing.

Interest related to a financial liability is recognized in profit or loss, and is included in finance costs or other gains and losses.

(ii) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchase in the short term. Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value subsequently, and changes therein, which take into account any interest expense, are recognized in profit or loss, and are included in other gains and losses.

(iii)Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss, which comprise accounts payable and other payables, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, these financial liabilities are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in finance costs.

(iv) Derecognition of financial liabilities

A financial liability is derecognized when its contractual obligation has been discharged or cancelled or has expired. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in other gains and losses.

(v) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when the Company has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(3) Derivative financial instruments, including hedge accounting

Derivative financial instruments are held to hedge foreign currency and interest rate exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized as other gains and losses in profit or loss. For hedge derivatives determined to be an effective hedge, the timing of recognition of related gain or loss is determined based on the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset; otherwise, it is classified as a financial liability.

(g) **Inventories**

Inventories are measured at the lower of cost and net realizable value. The costs of inventories include expenditure incurred in acquiring the inventories, conversion costs, and other costs (weighted-average method) incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) **Property, plant and equipment**

(1) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. The cost of software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of that significant part are the same as those of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

(2) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(3) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

Land has an unlimited life and therefore is not depreciated.

The estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment are as follows:

(i) Buildings and improvements: 33 to 55 years

(ii) Machinery equipment: 3 to 6 years

(iii) Transportation equipment: 5 years

(iv) Electrical equipment: 15 years

(v) Office and other equipment: 1 to 10 years

Depreciation methods, useful lives and residual values are reviewed at each fiscal year-end. If expectations differ from the previous estimates, the change is accounted for as a change in accounting estimate.

(i) **Lease**

Lessee

The Company's leases are operating leases and are not recognized in the Company’ s balance sheets.

Payments made under operating leases (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Incentives granted by the lessor to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease expense paid is reduced accordingly.

(j) **Intangible assets**

Except for goodwill, intangible assets acquired by the Company, are measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred. The amortizable amount is the cost of an asset less its residual value.

The Company's intangible assets is computer software cost. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of 4 to 5 years of intangible assets from the date that they are available for use.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any changes shall be accounted for as changes in accounting estimates.

(k) **Impairment of non-derivative financial assets**

The Company assesses non-derivative financial assets, except inventories and deferred tax assets, at each reporting date to see if there is an indication of impairment. The impairment loss is determined based on an asset’s recoverable amount. If it is not possible to determine the recoverable amount (fair value less costs to sell and value in use) for an individual asset, then the Company will have to determine the recoverable amount for the asset’s cash-generating unit (CGU).

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is accounted for as an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Company should assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased. If any such indication exists, the Company shall estimate the recoverable amount of that asset. An impairment loss recognized in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

(l) **Treasury stock**

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares should be recognized under "capital reserve — treasury share transactions". Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted average of different types of repurchase.

During the cancellation of treasury shares, "capital reserve — share premiums" and "share capital" should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital reserves arising from similar types of treasury shares; losses on cancellation of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

(m) **Revenue**

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

(n) **Employee benefits**

(1) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(2) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss immediately.

Remeasurements of a net defined benefit liability or asset include (i) actuarial gains and losses; (ii) return on plan assets excluding net interest on the net defined benefit liability or asset; and (iii) changes in the effect of the asset ceiling excluding net interest on the net defined benefit liability or asset. Remeasurements of the net defined benefit liability or asset are recognized in other comprehensive income. The Company may choose to transfer the amount that had been recognized as other comprehensive income to retained earnings or other equity. If the Company chooses to transfer to other equity, the amount shall not be reclassified to profit or loss or retained earnings, and this accounting should be adopted consistently in all future periods. The Company recognizes remeasurements of defined benefit plans in retained earnings.

The Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, and any change in the present value of the defined benefit obligation.

(3) Termination benefits

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(4) Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(Continued)

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(o) **Share-based payment**

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

(p) **Income taxes**

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

(1) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) arising from the transaction.

(2) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

(3) The initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, which are normally the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

(1) The Company has the legal right to settle tax assets and liabilities on the net basis; and

(2) The taxing of deferred tax assets and liabilities fulfills one of the below scenarios:

(i) Levied by the same taxing authority; or

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Notes to the Financial Statements (Continued)

(ii) Levied by different taxing authoritues, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences are also revaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

(q) **Earnings per share**

The Company discloses the basic and diluted earnings per share attributable to ordinary shareholders of the Company. The calculation of basic earnings per share is the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is the profit attributable to ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as accrued employee compensation not yet resolved by the shareholders.

(r) **Operating segments**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. Operating results of the operating segment are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the financial statements in accordance with the Regulations requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the following financial year is valuation of inventoriesas:

As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to note 6 (d) for further description of the valuation of inventories.

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Notes to the Financial Statements (Continued)

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	$ 540	419
Demand and checking deposits	208,045	537,429
Time deposits	1,700,800	1,819,800
Repurchase agreements collateralized by commercial paper	133,952	199,793
Total	$ **2,043,337**	**2,557,441**

Please refer to Note 6(p) for the analysis of exchange rate risk and sensitivity of the financial assets and liabilities.

(b) Financial liabilities at fair value through profit or loss

	December 31, 2017	December 31, 2016
Derivative instruments not used for hedging:		
Forward exchange contracts	$ **-**	**353**

The Company is engaged in the sale of forward exchange contracts, and these contracts are used to hedge certain foreign exchange risk from operating activities. Since they did not meet the criteria for hedge accounting, they were classified as financial liabilities at fair value through profit or loss. Please refer to Note 6(o) for the financial liabilities measured at fair value that are recognized in profit or loss. As of December 31, 2016, outstanding forward exchange contracts were as follows:

	December 31, 2016		
	Contract amount (in thousands)	Currency	Maturity period
Forward exchange sold	$ **870**	**USD**	**2017.1.4~2017.2.3**

(c) Notes and accounts receivable and other receivables

	December 31, 2017	December 31, 2016
Notes receivable	$ 33,378	35,077
Accounts receivable	385,489	219,415
Other receivables	10,852	4,886
Less: allowance for doubtful accounts	(4,081)	(2,839)
	$ **425,638**	**256,539**

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Notes to the Financial Statements (Continued)

The details of notes and accounts receivable that were past due but not impaired were as follows:

	December 31, 2017	December 31, 2016
Overdue 1~60 days	$ 86,668	26,463
Overdue more than 60 days	4,670	4,582
	$ 91,338	**31,045**

For the years ended December 31, 2017 and 2016, the movements of allowance for doubtful accounts with respect to notes and accounts receivable and other receivable were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2017	$ -	$ 2,839	2,839
Recognition of impairment loss	4,081	(2,839)	1,242
Balance at December 31, 2017	**$ 4,081**	**$ -**	**4,081**
Balance at January 1, 2016	$ -	$ 4,139	4,139
Recognition of impairment loss	-	2,155	2,155
Amounts written off	-	(3,455)	(3,455)
Balance at December 31, 2016	**$ -**	**$ 2,839**	**2,839**

The average credit period on sales of goods was 30 to 90 days. In determining the recoverability of accounts receivable, the Company considered any change in the credit quality of the accounts receivable from the date credit was initially granted to the end of the reporting period.

Impairment loss recognized for individually assessed impairment is the difference between the carrying amount and the amount expected to be collected. The Company does not hold any collateral for the collectible amounts.

As of December 31, 2017 and 2016, notes and accounts receivable were not pledged as collateral or restricted in any way.

(d) **Inventories**

	December 31, 2017	December 31, 2016
Raw materials and supplies	$ 118,101	113,491
Work in progress	41,289	13,150
Finished goods	58,319	57,157
	$ 217,709	**183,798**

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016, were $919,427 and $844,553, respectively. For the years ended December 31, 2017 and 2016, the losses on valuation of inventories recognized as operating cost were $18,039 and $17,460, respectively.

As of December 31, 2017 and 2016, the inventories were not pledged as collateral or restricted in any

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

way.

(e) **Property, plant and equipment**

The movement of cost, accumulated depreciation and impairment loss for property, plant and equipment of the Company were as follows:

	Buildings and improvements	Machinery equipment	Transportation equipment	Electrical equipment	Office and other equipment	Construction in process and testing equipment	Total	
Cost or deemed cost:								
Balance at January 1, 2017	$ 171,300	576,888	3,859	16,493	781,864	206,802	1,757,206	
Additions	-	-	-	-	19,733	314,842	334,575	
Disposals	-	-	-	1,143	9,958	-	11,101	
Reclassification	-	38,073	-	-	193,274	(226,383)	4,964	(Note1)
Balance at December 31, 2017	**$ 171,300**	**614,961**	**3,859**	**15,350**	**984,913**	**295,261**	**2,085,644**	
Balance at January 1, 2016	$ 148,900	446,898	3,859	17,607	662,122	157,312	1,436,698	
Additions	2,240	2,198	-	-	59,168	191,666	255,272	
Disposals	-	-	-	1,114	-	-	1,114	
Reclassification	20,160	127,792	-	-	60,574	(142,176)	66,350	(Note2)
Balance at December 31, 2016	**$ 171,300**	**576,888**	**3,859**	**16,493**	**781,864**	**206,802**	**1,757,206**	
Accumulated depreciation and impairment loss:								
Balance at January 1, 2017	$ 13,797	355,694	1,315	4,868	335,156	-	710,830	
Depreciation	4,826	96,451	643	881	171,583	-	274,384	
Disposals	-	-	-	1,143	9,958	-	11,101	
Balance at December 31, 2017	**$ 18,623**	**452,145**	**1,958**	**4,606**	**496,781**	**-**	**974,113**	
Balance at January 1, 2016	$ 9,026	281,045	672	4,977	205,855	-	501,575	
Depreciation	4,771	74,649	643	974	129,301	-	210,338	
Disposals	-	-	-	1,083	-	-	1,083	
Balance at December 31, 2016	**$ 13,797**	**355,694**	**1,315**	**4,868**	**335,156**	**-**	**710,830**	
Carrying amounts:								
Balance at December 31, 2017	**$ 152,677**	**162,816**	**1,901**	**10,744**	**488,132**	**295,261**	**1,111,531**	
Balance at December 31, 2016	**$ 157,503**	**221,194**	**2,544**	**11,625**	**446,708**	**206,802**	**1,046,376**	
Balance at January 1, 2016	**$ 139,874**	**165,853**	**3,187**	**12,630**	**456,267**	**157,312**	**935,123**	

Note 1： Prepayments have been reclassified to machinery and equipment with $500. Other non-current assets－prepayment for equipment have been reclassified to testing equipment with $6,332. Testing equipment have been reclassified to other non-current assets－prepayment for computer software, prepayments and expense with $520, $100 and $1,248, respectively.

Note 2： Prepayment for equipment has been reclassified to other receivables with $3,455. Other non-current assets－prepayment for equipment have been reclassified to testing equipment with $69,805, including the amount of $46,530, which had been reclassified to machinery and equipment; and the remaining amount of $23,275.

Property, plant and equipment were not pledged as collateral or restricted in any way.

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

(f) **Intangible assets**

The movement of cost and accumulated amortization for intangible assets were as follows:

		Computer software
Cost:		
Balance at January 1, 2017	$	-
Additions		14,974
Balance at December 31, 2017	**$**	**14,974**
Accumulated amortization:		
Balance at January 1, 2017	$	-
Amortization		1,372
Balance at December 31, 2017	**$**	**1,372**
Carrying amounts:		
Balance at December 31, 2017	**$**	**13,602**
Balance at December 31, 2016	**$**	**-**
Balance at January 1 , 2016	**$**	**-**

(g) **Other non-current assets**

		December 31, 2017	December 31, 2016
Prepayment for equipment	$	180,939	6,332
Prepayment for computer software		1,859	-
Others		2,679	2,339
Total	**$**	**185,477**	**8,671**

The amount under “ others” is the line subsidy expense and the instalment of technology authorization.

(h) **Employee benefits**

1. Defined benefit plan

The Company determined the movement in the present value of the defined benefit obligation and net defined benefit liability to be as follows:

		December 31, 2017	December 31, 2016
Present value of defined benefit obligation	$	9,942	10,276
Fair value of plan assets		(6,521)	(6,165)
Net defined benefit liability	**$**	**3,421**	**4,111**

(Continued)

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

The Company makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. The plan (covered by the Labor Standards Law) entitle a retired employee to receive retirement payment based on years of service and average salary for the six months prior to retirement.

(1) Composition of plan assets

The Company contributes pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds under the Ministry of Labor. Minimum earnings shall not be lower than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's labor pension reserve account balance in Bank of Taiwan amounted to $6,458 and $6,094 as of December 31, 2017 and 2016, respectively. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds.

(2) Movements in present value of the defined benefit obligation were as follows:

	2017	**2016**
Balance at January 1	$ 10,276	10,194
Current service costs and interest	169	183
Remeasurement of the net defined benefit liability	(503)	(101)
Balance at December 31	**$ 9,942**	**10,276**

(3) Movements in fair value of plan assets were as follows:

	2017	**2016**
Balance at January 1	$ 6,165	5,753
Interest income	105	107
Employer contribution	297	370
Remeasurement of the net defined benefit asset	(46)	(65)
Balance at December 31	**$ 6,521**	**6,165**

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

(4) Expenses recognized in profit or loss were as follows:

		2017	2016
Interest cost	$	169	183
Interest income on plan asset		(105)	(107)
	$	**64**	**76**
Cost of sales	$	51	62
Selling expenses		3	4
General and administrative expenses		5	5
Research and development expenses		5	5
	$	**64**	**76**

(5) Remeasurement of the net defined benefit liability recognized in other comprehensive income were as follows:

		2017	2016
Cumulative balance as of January 1		(2,045)	(2,081)
Recognized during the period		457	36
Cumulative balance as of December 31	**$**	**(1,588)**	**(2,045)**

(6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	December 31, 2017	December 31, 2016
Discount rate	1.55 %	1.65 %
Future salary increase	1.50 %	1.50 %

The expected amount of contributions for the year after the reporting date is $297. The weighted-average duration of the defined benefit obligation is 19 years.

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

(7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the pressent value of the defined benefit obligation shall be as follows:

	Influences of defined benefit obligations	
	Increase (%)	**Decrease (%)**
December 31, 2017:		
Discount rate (change of 0.25%)	(3.26)%	3.44 %
Change in future salary (change of 1%)	14.79 %	(12.34)%
December 31, 2016:		
Discount rate (change of 0.25%)	(3.32)%	3.48 %
Change in future salary (change of 1%)	15.10 %	(12.64)%

The sensitivity analysis above analyzing the effects of changes in single assumptions is based on other assumptions remaining unchanged. In actuality, changes in some assumptions may be linked together. The sensitivity analysis and calculation of the net pension liability on the balance sheet were performed using the same approach.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2017 and 2016.

2. Defined contribution plan

The Company contributes 6% of each employee's monthly wages to the labor pension personal account of the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. The Company contributes a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The contributions made to employees' individual accounts amounted to $8,176 and $7,736 for the years ended December 31, 2017 and 2016, respectively.

3. Short-term benefit obligation

	December 31, 2017	**December 31, 2016**
Accrued for vacation, recorded as other payables	**$ 6,307**	**5,122**

(i) **Income taxes**

1. The amounts of income tax expense were as follows:

	2017	**2016**
Current tax expense		
Current period	$ 139,997	184,745
Deferred tax benefit		
Origination and reversal of temporary differences	(4,230)	(2,610)

(Continued)

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

Income tax expense	$ **135,767**	**182,135**

The amounts of income tax benefit recognized in other comprehensive income were as follows:

	2017	**2016**
Remeasurement of defined benefit plan	$ **(78)**	**(6)**

Reconciliation of income tax expense and income before income tax were as follows:

	2017	**2016**
Income before income tax	791,336	1,057,582
Income tax calculated based on the Company's tax rate	134,527	179,789
Research and development tax credits	(5,295)	(3,002)
Adjustment for prior periods	214	343
10% surtax on undistributed earnings	6,321	5,002
Others	-	3
	$ **135,767**	**182,135**

2. Deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2017 and 2016 were as follows:

	Defined benefit plan	**Inventory valuation loss**	**Others**	**Total**
Deferred tax assets:				
Balance at January 1, 2017	$ 698	7,273	1,372	9,343
Recognized in profit or loss	(39)	3,066	503	3,530
Recognized in other comprehensive income	(78)	-	-	(78)
Balance at December 31, 2017	**$ 581**	**10,339**	**1,875**	**12,795**
Balance at January 1, 2016	754	4,305	1,387	6,446
Recognized in profit or loss	(50)	2,968	(15)	2,903
Recognized in other comprehensive income	(6)	-	-	(6)
Balance at December 31, 2016	**$ 698**	**7,273**	**1,372**	**9,343**

	Unrealized exchange gain
Deferred tax liabilities:	
Balance at January 1, 2017	$ 700
Recognized in profit or loss	(700)
Balance at December 31, 2017	**$ -**
Balance at January 1, 2016	407
Recognized in profit or loss	293
Balance at December 31, 2016	**$ 700**

(Continued)

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

3. Examination and Approval

The Company's tax returns for the years through 2015 were examined and approved by the tax authority.

4. Information related to the imputation credit account (ICA) is summarized below:

	December 31, 2017	December 31, 2016
Unappropriated earnings of 1998 and after	$ 857,797	1,144,248
Balance of ICA	$ 161,135	155,710

The Company's tax creditable ratio for earnings distributed to residents of the R.O.C. for the years ended December 31, 2017 and 2016, were 22.64% and 20.98%, respectively. The aforementioned information has been prepared in accordance Tai-Tsai-Suei Letter No. 10204562810 dated October 17, 2013, issued by the Ministry of Finance.

According to the amendments to the "Income Tax Act" completed the third reading by the Legislative Yuan of the Republic of China (Taiwan) on January 18, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system. The information of the Company's tax creditable ratio for the year ended December 31, 2017, presented above is for reference only.

(j) **Share capital and other equity**

As of December 31, 2017 and 2016, the authorized common stock of the Company were $1,000,000, comprising 100,000 thousand shares with a par value of $10 per share. The issued shares were 90,573 thousand shares and 91,257 thousand shares, respectively. All the capitals were fully received.

Reconciliations of shares outstanding for 2017 and 2016 were as follows (in thousand shares):

	Ordinary shares	
	2017	**2016**
Balance at January 1	90,612	69,910
Stock dividend	-	20,972
Treasury stock repurchase	(5)	(645)
Restricted stock issuance	-	375
Restricted stock retired	(34)	-
Balance at December 31	**90,573**	**90,612**

(1) Common stock

On June 14, 2016, the Company's stockholders' meeting approved the issuance of 20,972,925 shares for the distribution of stock dividends in the total amount of $209,729. The Company's board of the directors resolved the basis date of the increase in capital to be August 8, 2016, and the registration procedures have been completed.

On June 14, 2016, the Company's stockholders' meeting approved the issuance of 400 thousand restricted shares of stocks to employees. The actual number of issued shares was 375 thousand, which resulted in a capital surplus－restricted stock of $138,353. The Company's board of the directors resolved the basis date of the increase in capital to be August 23, 2016, and the registration procedures have been completed. As of December 31, 2017 and 2016, deferred compensation cost arising from issuance of restricted stock were $39,928 and $99,821, which were accounted for under other adjustments to shareholders' equity.

(2) Retirement of common stock

On April 8 and October 31, 2017, the Company's board of directors approved resolutions to retire 18 thousand and 16 thousand shares of restricted stock which are non-vested, respectively. The basis date of the decrease in capital were May 2 and November 6, 2017, respectively, and the registration procedures have been completed.

On February 14, 2017, the Company's board of directors approved a resolution to retire 650 thousand treasury shares in order to protect the Company's integrity and shareholders' equity. The basis date of the decrease in capital was February 15, 2017, and the registration procedures have been completed.

(3) Capital surplus

The balance of capital surplus at the reporting date were as follows:

		December 31, 2017	December 31, 2016
Additional paid-in capital	$	1,516,555	1,527,434
Restricted stock		138,698	138,353
Total	**$**	**1,655,253**	**1,665,787**

In accordance with the Company Act, realized capital surplus can only be reclassified as share capital or be distributed as cash dividends after offsetting losses. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be reclassified as share capital shall not exceed 10 percent of the actual share capital amount.

(4) Retained earnings

According to the Company's articles of incorporation, 10% of annual earnings must be set aside as legal reserve after offsetting any accumulated deficit. When the balance of such legal reserve reaches an amount equal to the paid-in capital, the appropriation to legal reserve is discontinued. The Company may, under its articles of incorporation or by resolution of the meeting of shareholders, set aside another sum as special reserve. Distribution of the remainder is at the stockholders' discretion.

(i) Legal reserve

According to the ROC Company Act, the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

(Continued)

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

(ii) Earning distribution

The appropriations of earnings for 2016 and 2015 were approved by the shareholders' meetings on May 3, 2017, and June 14, 2016, respectively. The relevant dividend distributions to shareholders were as follows:

Unit per share: dollar

	2016		2015	
	TWD/per share	**Amount**	**TWD/per share**	**Amount**
Dividend distributed to common shareholders:				
Cash dividends	$ 8.0	724,717	9.0	629,188
Stock dividends	-	-	3.0	209,729
		$ 724,717		**838,917**

There were no differences between the actual amounts of appropriation of earning for 2016 and 2015 and those approved by the board of directors. The related information can be accessed through the Market Observation Post System.

(5) Treasury stock

For the years ended December 31, 2017 and 2016, in accordance with the requirements under section 28(2) of the Securities and Exchange Act, the Company repurchased 5 thousand and 645 thousand shares as treasury shares, respectively, in order to protect the Company's integrity and shareholders' equity. As of 31 December 2017, the accumulated 650 treasury shares amounting to $147,516 have been retired.

In accordance with Securities and Exchange Act requirements as stated above, the number of shares repurchased should not exceed 10 percent of all shares outstanding. Also, the value of the repurchased shares should not exceed the sum of the Company' s retained earnings, share premium, and realized capital reserves. The number and the value of the aforementioned shares repurchased were in compliance with the Securities and Exchange Act.

In accordance with the requirements of Securities and Exchange Act, treasury shares held by the Company should not be pledged, and do not hold any shareholder rights before their transfer.

(k) **Share-based payment**

On June 14, 2016, the board of shareholders' meeting approved the issuance of 400 thousand restricted shares of stock to those full-time employees who meet the Company's requirements. The restricted stock has been registered with, and approved by, the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On August 2, 2016, the board of directors issued 375 thousand restricted shares. The fair value on the grant date was $346.6 per share.

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

Those employees with the restricted stock awards are entitled to purchase shares at the price of $51.34 per share, with the condition that these employees continue to provide service to the Company for at least 2 years (from the grant date). 50% of the restricted stock is vested in year 1 after the grant date, and the remaining 50% is vested in year 2 after the grant date. The restricted stock is kept by a trust, which is appointed by the Company, before it is vested. These shares shall not be sold, pledged, transferred, gifted, or disposed of by any other means to third parties during the custody period. The voting rights of these shareholders are executed by a custodian who will act in accordance with the laws and regulations. If the shares remain unvested after the vesting period, the Company will repurchase all the unvested shares at the issuance price and cancel the shares thereafter.

Details of the restricted stock of the Company are as follows:

(1) Details of number of restricted shares are as follows:

	2017	2016
	Number of restricted shares (in thousands)	Number of restricted shares (in thousands)
Outstanding at January 1	375	-
Granted during the year	-	375
Retired during the year	(34)	-
Repurchased, not retired	(1)	-
Outstanding at December 31	**340**	**375**

(2) The company used Black-Scholes model in measuring the fair value of the share-based payment at the grant date. The assumptions adopted in this valuation model were as follows:

Current market price (NT$)	398
Exercise price (NT$)	51.34
Expected life / Exercise period	2 years / 16 days
Expected volatility	92.27%
Risk-free interest rate	0.3189%

For the years ended December 31, 2017 and 2016, the compensation cost of restricted stock amounted to $59,893 and $24,955, respectively, which were recognized as operating cost or operating expenses.

(l) **Earnings per share**

For the years ended December 31, 2017 and 2016, the basic and diluted earnings per share (expressed in New Taiwan dollars) were calculated as follows:

Unit of shares: thousand

Basic earnings per share:	**2017**	**2016**
Profit attributable to ordinary shareholders of the Company	$ 655,569	875,447
Weighted-average number of common shares outstanding	90,233	90,796
	$ 7.27	**9.64**

(Continued)

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

Diluted earnings per share:	**2017**	**2016**
Profit attributable to ordinary shareholders of the Company (diluted)	$ 655,569	875,447
Weighted-average number of common shares outstanding	90,233	90,796
Effect of employee compensation	293	448
Restricted stock	183	-
Weighted-average number of common shares outstanding (diluted)	90,709	91,244
	$ 7.23	**9.59**

For the year ended December 31, 2016, the restricted shares were not included in the calculation of weighted-average number of shares (diluted) due to their anti-dilutive impact on earnings per share.

(m) **Revenue**

Details of revenue were as follows:

	2017	**2016**
Sale of goods	**$ 2,038,618**	**2,110,063**

(n) **Employee compensation and director's remuneration**

According to the articles of the incorporation, if the Company has profit as a result of the yearly account closing, the Company should distribute 1% to directors as compensation and no less than 8% as employee compensation. When the Company still has an accumulated loss, the Company shall keep the profit for making up an accumulated loss.

For the years ended December 31, 2017 and 2016, the remuneration to employees amounted to $69,592 and $92,974, respectively, and the remuneration of directors amounted to $8,699 and $11,622, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees and directors of each period, multiplied by the appropriate percentage in compliance with the Company's articles. These expenses were recognized under operating costs and operating expenses during 2017 and 2016. The related information can be accessed through the Market Observation Post System. For the years ended December 31, 2017 and 2016, the remuneration to employees and directors have no differences between the estimated amounts and the amounts approved by the board of directors.

(o) **Non-operating income and expenses**

1. Interest income

	2017	**2016**
Bank deposits	**$ 11,077**	**10,616**

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

2. Other gains and losses

		2017	2016
Foreign exchange losses, net	$	(21,964)	(8,744)
Gains on valuation of financial assets and liabilities by fair value, net		1,496	5,956
Losses on disposal of property, plant and equipment		-	(31)
Others		7,224	1,386
	$	**(13,244)**	**(1,433)**

(p) **Financial instruments**

(1) Credit risk

The maximum exposure to credit risk is mainly from the carrying amount of financial assets.

For the years ended December 31, 2017 and 2016, a few customers of the Company accounted for 67% and 66%, respectively, of accounts receivable. However, 10% and 13%, respectively, of the above receivables were irrevocable letters of credit with extended maturities. As of the end of the reporting period, the Company did not suffer any significant credit risk losses due to these customers. The Company periodically evaluates customers' financial position and the possibility of recovery of receivables in order to reduce credit risk.

(2) Liquidity risk

The following were the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 6 months	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
December 31, 2017							
Non-derivative financial liabilities							
Non-interest-bearing liabilities	$ **138,893**	**138,893**	**138,893**	-	-	-	-
December 31, 2016							
Non-derivative financial liabilities							
Non-interest-bearing liabilities	$ 105,845	105,845	105,845	-	-	-	-
Derivative financial liabilities							
Forward exchange contracts	353	353	353	-	-	-	-
	$ **106,198**	**106,198**	**106,198**	-	-	-	-

The Company does not expect that the cash flows could occur significantly earlier or at significantly different amounts.

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

(3) Foreign currency risk

1. Exposure to foreign currency risk

The Company's significant exposure to foreign currency risk were as follows:

Unit of foreign currency: thousand

	December 31, 2017			December 31, 2016		
	Foreign currency	Exchange rate	TWD amount	Foreign currency	Exchange rate	TWD amount
Financial assets						
Monetary items						
USD	$ 17,418	29.76	518,370	9,123	32.25	294,223
CNY	1,106	4.565	5,050	1,475	4.617	6,811
Financial liabilities						
Monetary items						
USD	905	29.76	26,952	428	32.25	13,789
JPY	47,900	0.2642	12,655	-	-	-
Non-Monetary items						
USD	-	-	-	870	32.25	28,058

Exchange gains or losses (including realized and unrealized) that resulted from monetary items translated to the functional currency were as follows:

	2017		2016	
	Exchange gains (losses)	**Average rate**	**Exchange gains (losses)**	**Average rate**
TWD	**$ (21,964)**	**-**	**(8,744)**	**-**

2. Sensitivity analysis

The foreign currency risk was mainly incurred from the translation of cash and cash equivalents, accounts receivable, accounts payable, and other payables. If the exchange rate of the TWD versus the USD, CNY and JPY had increased or decreased by 3%, given no changes in other factors, profit after tax would have increased or decreased by $12,046 and $7,152 for the years ended December 31, 2017 and 2016, respectively. The analysis is performed on the same basis for 2016.

(4) Interest rate analysis

The Company had no non-interest-bearing liabilities. Therefore, there was no need to perform an interest analysis.

LANDMARK OPTOELECTRONICS CORPORATION
Notes to the Financial Statements (Continued)

(5) Fair value information

1. Fair value and carrying amounts

Other than those listed below, the Company considers the carrying amounts of its financial assets and liabilities measured at amortized cost to be a reasonable approximation of fair value:

	December 31, 2017				
	Carrying	Fair Value			
	amount	Level 1	Level 2	Level 3	Total
Loans and receivable					
Cash and cash equivalents	$2,043,337	-	-	-	-
Notes and accounts receivable	414,786	-	-	-	-
Total	$2,458,123				
Other financial assets－current and non-current	$ 27,961	-	-	-	-
Financial liabilities measured at amortized cost					
Payables	$ 138,893	-	-	-	-

	December 31, 2016				
	Carrying	Fair Value			
	amount	Level 1	Level 2	Level 3	Total
Loans and receivable					
Cash and cash equivalents	$2,557,441	-	-	-	-
Notes and accounts receivable	251,653	-	-	-	-
Total	$2,809,094				
Other financial assets－current and non-current	$ 12,435	-	-	-	-
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	$ 353	-	353	-	353
Financial liabilities measured at amortized cost					
Payables	$ 105,845	-	-	-	-

The table above analyzes financial instruments carried at fair value by the levels in the fair value hierarchy. The different levels have been defined as follows:

－Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

－Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

－ Level 3: inputs for the assets or liablity that are not based on observable market data (unobservable inputs).

There was no reclassification of levels during the years ended December 31, 2017 and 2016.

2. Valuation techniques used in determining the fair value of other financial assets and financial liabilities

   Derivative financial instruments

   The fair value is determined according to an evaluation model widely accepted by market participants such as the discounted cash flow model. The fair value of forward exchange contracts is usually based on the forward exchange rate.

(q) **Financial risk management**

(1) The Company was exposed to the following risks arising from the use of financial instruments:

1.Credit risk

2.Liquidity risk

3.Market risk

The Company' s risk management objectives, policies and procedures and the exposure risk arising from the aforementioned risks are disclosed below. For more quantitative information, please refer to other notes to the financial statements.

(2) Risk management framework

Risk management is performed by the department of management of the Company in accordance with policies approved by the board of directors. The department of management cooperates closely with the operating units and is responsible for the identification, evaluation and avoidance of financial risk. The board of directors has written regulations about overall risk management, and regularly reviews them to reflect any changes in market conditions and the Company' s operations. The Company, through its training management standards, and operating procedures, aims to create a disciplined and constructive control environment.

The Company minimizes its risk exposure through derivative financial instruments. The use of derivative financial instruments is regulated by the policy which was resolved by the board of directors. The written regulations concern currency risk, interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments, and the investment of the rest of the funds. The Company has no transactions in financial instruments (including derivative financial instruments) for the purpose of speculation.

(3) Credit risk

Credit risk is the risk of financial loss of the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company' s accounts receivable and bank deposits.

1. Accounts receivable

   The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company' s standard payment and delivery terms and conditions are offered. The Company' s review includes external ratings, when available, and in some cases, bank references. The Company rates major clients by other publicly available information and past transaction experience. Credit limits are established for each customer, and these limits are reviewed regularly. First-time customers, customers that have not traded for a long period, and customers that fail to meet the Company' s benchmark creditworthiness may transact with the Company only on a prepayment basis.

The Company evaluates the aging of accounts receivable periodically, and accrues an allowance for doubtful accounts, if necessary. The allowance consists of a specific loss component that relates to individually significant risk exposures and a collective loss incurred but not yet identified. The collective loss allowance is determined based on historical payment statistics.

2. Bank deposits

The Company's transactions resulted from external parties with good credit ratings; there are no noncompliance issues. The Company also has relationships with multiple financial institutions to diversify risk.

(4) Liquidity risk

The Company had sufficient working funds to meet the cash needs for settlement of contracts. Therefore, no material liquidity risk was anticipated.

(5) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company, the New Taiwan dollar. The currencies used in these transactions are the TWD and USD.

At any point in time, the Company hedges its estimated foreign currency exposure with respect to its forecast sales and purchases over the following period. The Company also hedges all trade receivables and trade payables denominated in a foreign currency. The Company uses forward exchange contracts to hedge its currency risk, with a maturity of less than one year from the reporting date.

The Company engages in transactions in derivative instruments to manage market risk, since they give rise to financial liabilities. All transactions are conducted following the board of directors' approval policy.

(r) **Capital management**

The Company's goal of capital management is to maintain adequate capital to meet the need for expansion and productivity improvement and to ensure the Company has sufficient financial resources to cope with future needs for operating funds, capital expenditures, research and development expenditures, dividend expenses, and other operating requirements. Capital includes the Company's capital stock, capital surplus, and retained earnings.

The Company's debt-to-equity ratios were as follows:

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Notes to the Financial Statements (Continued)

		December 31, 2017	December 31, 2016
Total liabilities	$	328,891	347,130
Less: cash and cash equivalents		(2,043,337)	(2,557,441)
Net debt	$	**(1,714,446)**	**(2,210,311)**
Total equity	$	**3,721,196**	**3,731,407**
Debt-to-equity ratio		**(46.07)%**	**(59.24)%**

As of December 31, 2017, the Company's capital management strategy was consistent with the prior years.

(7) Related-party transactions:

Key management personnel compensation comprised:

		2017	2016
Short-term employee benefits	$	38,323	52,321
Post-employment benefits		519	642
Share-based payments		12,977	5,407
	$	**51,819**	**58,370**

(8) Pledged assets:

The carrying values of pledged assets were as follows:

Pledged assets	Object		December 31, 2017	December 31, 2016
Other financial assets－current and non-curront (restricted bank deposits)	Post-release duty payment of import cargo, Southern Taiwan Science Park's lease and notional forward exchange deposits	$	**26,723**	**11,607**

(9) Commitments and contingencies:

(a) The Company signed contracts with domestic and foreign vendors for purchasing property, plant and equipment. As of December 31, 2017 and 2016, the contracts amounted to $590,673 and $186,601, respectively, and the unpaid payment were $135,056 and $20,884, respectively.

(b) The Company entered into rental agreements with the Southern Taiwan Science Park for land ranging from August 1, 2010, to October 20, 2037 in October 2017 and August 2010. The future rental commitments are as follows:

		December 31, 2017	December 31, 2016
Less than one year	$	10,507	2,368
Between one and five years		42,026	9,471
More than five years		138,682	20,323
	$	**191,215**	**32,162**

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Notes to the Financial Statements (Continued)

(10) Losses Due to Major Disasters:None

(11) Significant Subsequent Events:

According to the amendments to the "Income Tax Act" completed the third reading by the Legislative Yuan of the Republic of China (Taiwan) on January 18, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing fiscal year 2018. This increase does not affect the amounts of the current or deferred income taxes recognized on December 31, 2017. However, it will increase the Company's current tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences recognized on December 31, 2017, the deferred tax assets would increase by $2,258.

(12) Other:

The following is a summary statement of current-period employee benefits, depreciation, and amortization expenses by function:

By function / By item	2017			2016		
	Classified as cost of sales	**Classified as operating expenses**	**Total**	**Classified as cost of sales**	**Classified as operating expenses**	**Total**
Employee benefits						
Salary	184,639	138,738	323,377	194,449	108,272	302,721
Labor and health insurance	11,597	5,811	17,408	11,055	5,774	16,829
Pension	6,177	2,063	8,240	6,111	1,701	7,812
Others	5,981	3,055	9,036	6,700	3,432	10,132
Depreciation	229,176	45,208	274,384	175,486	34,852	210,338
Amortization	496	1,372	1,868	1,022	7	1,029

Average headcount of the Company during 2017 and 2016 were 243 and 235, respectively.

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company:

1. Loans to other parties:None
2. Guarantees and endorsements provided to others:None
3. Information regarding securities held at balance sheet date (excluding investments in subsidiaries, associates, and joint ventures):None
4. Information regarding securities where the accumulated purchase or sale amounts for the period exceed NT$300 million or 20% of the paid-in capital:None
5. Information on the acquisition of real estate which exceeds NT$300 million or 20% of the paid-in capital:None

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Notes to the Financial Statements (Continued)

6. Information on the disposal of real estate which exceeds NT$300 million or 20% of the paid-in capital:None
7. Information regarding related-party purchase and sale transactions which exceed NT$100 million or 20% of the paid-in capital:None
8. Information regarding receivables from related parties which exceed NT$100 million or 20% of the paid-in capital:None
9. Trading in derivative instruments:None
10. Business relationships and significant intercompany transactions:None

(b) Information on investees:None

(c) Information on investment in Mainland China:None

(14) Segment information:

(a) General information

The Company has one reportable segment and is mainly engaged in single-product manufacturing and selling of wafers. Financial segment information is consistent with the above financial information for the Company as a whole. The accounting policies of the operating segment are the same as those described in Note 4. The operating segment's income was measured using profit before tax, which was also used as the basis for performance evaluation.

(b) Information on reportable segment profit or loss, assets, liabilities, and basis of measurement and reconciliation

The information on segment profit or loss, assets, and liabilities is consistent with the information in the financial statements; please refer to the balance sheets and statements of comprehensive income.

(c) Information about products and services

The Company is mainly engaged in single-product manufacturing and selling of wafers.
The information on products is consistent with the financial statements; please refer to the statements of comprehensive income.

(d) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

Geographic Area	2017	2016
Revenue from external customers:		
United States	$ 1,143,172	674,878
Mainland China	462,581	690,064
Taiwan	381,899	675,277
Other	50,966	69,844
	$ 2,038,618	**2,110,063**

(Continued)

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Notes to the Financial Statements (Continued)

Non-current assets:

	December 31, 2017	December 31, 2016
Taiwan	$ **1,310,610**	**1,055,047**

(e) Major customer information

The sales to individual customers that constituted 10% or more of net sales were as follows:

Customer	2017	2016
C	$ 1,002,124	470,209
I	200,703	459,784
A	126,787	248,894
D	55,857	226,387
	$ **1,385,471**	**1,405,274**