

(English Translation of Financial Statements and Report Originally Issued in Chinese)
Landmarks Optoelectronics Corporation
Financial Statements
September 30, 2017 and 2016
(With Independent Auditors' Review Report Thereon)

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.

Address: No.12, Nanke 9th Rd, Shanhua Dist., Tainan City, Taiwan R.O.C
Telephone: 886-6-505-8999

Table of contents

Contents	Page
1. Cover page	1
2. Table of contents	2
3. Independent auditors' review report	3
4. Balance sheets	4
5. Statements of comprehensive income	5
6. Statements of changes in equity	6
7. Statements of cash flows	7
8. Notes to the financial statements	
(1) Company history	8
(2) Financial statements authorization date and authorization process	8
(3) Adoption of new standards and interpretations	8~12
(4) Summary of significant accounting policies	12~13
(5) Significant accounting judgments, estimates, and assumptions, and sources of estimation uncertainty	13
(6) Explanation of significant accounts	13~25
(7) Related-party transactions	26
(8) Pledged assets	26
(9) Commitments and contingencies	26
(10) Losses due to major disasters	26
(11) Significant subsequent events	26
(12) Other	27
(13) Other disclosures	
(a) Information on significant transactions	27~28
(b) Investee information	28
(c) Information on investment in Mainland China	28
(14) Segment information	28

Independent Auditors' Review Report

To the Board of Directors
LandMark Optoelectronics Corporation

We have reviewed the accompanying balance sheets of LandMark Optoelectronics Corporation (the "Company") as of September 30, 2017 and 2016, and the related statements of comprehensive income for the three months and nine months ended September 30, 2017 and 2016, and the statement of changes in equity and cash flows for the nine months ended September 30, 2017 and 2016. These interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these interim financial statements based on our review.

We conducted our review in accordance with Statement of Auditing Standards No. 36 "Engagements to Review Financial Statements". A review consists principally of inquiries of the Company's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with the generally accepted auditing standards, the objective of which is the expression of an opinion regarding the interim financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the interim financial statements referred to in the first paragraph in order for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Accounting Standards 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commissions of the Republic of China.

KPMG

Taiwan (the Republic of China)

October 31, 2017

Note 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)
As of September 30, 2017 and 2016 reviewed only, not audited in accordance with generally accepted auditing standards

LandMark Optoelectronics Corporation

Balance Sheets

September 30, 2017, December 31, and September 30, 2016

(Expressed in thousands of New Taiwan dollars)

Assets	2017.9.30		2016.12.31		2016.9.30		Liabilities and Equity	2017.9.30		2016.12.31		2016.9.30	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Current assets :							Current liabilities :						
Cash and cash equivalents (Note 6(a))	\$ 1,886,514	50	2,557,441	63	2,386,678	59	Financial liabilities at fair value through profit or loss – current (Note 6(b))	\$ -	-	353	-	-	-
Financial assets at fair value through profit or loss – current (Note 6(b))	145	-	-	-	1,738	-	Notes payable	745	-	57,076	1	33,639	1
Notes receivable, net (Note 6(c))	41,032	1	35,077	1	97,993	2	Accounts payable	81,415	2	29,751	1	30,129	1
Accounts receivable, net (Note 6(c))	372,360	10	216,576	5	306,111	8	Other payables	202,657	6	164,809	4	144,333	3
Inventories (Note 6(d))	253,220	7	183,798	5	180,781	5	Current tax liabilities	4,610	-	84,350	2	67,767	2
Prepayments	6,602	-	3,583	-	6,548	-	Other current liabilities	9,762	-	5,980	-	7,652	-
Other current assets	10,636	-	5,237	-	5,873	-		299,189	8	342,319	8	283,520	7
Other financial assets – current (Notes 6(c) and 8)	12,117	-	8,993	-	8,691	-	Non-current liabilities :						
	<u>2,582,626</u>	<u>68</u>	<u>3,010,705</u>	<u>74</u>	<u>2,994,413</u>	<u>74</u>	Deferred tax liabilities	700	-	700	-	407	-
Non-current assets :							Net defined benefit liability – non-current	3,933	-	4,111	-	4,216	-
Property, plant and equipment (Notes 6(e) and 9)	1,070,776	28	1,046,376	26	1,058,323	26		4,633	-	4,811	-	4,623	-
Intangible assets (Notes 6(f))	12,997	-	-	-	-	-	Total liabilities	<u>303,822</u>	<u>8</u>	<u>347,130</u>	<u>8</u>	<u>288,143</u>	<u>7</u>
Deferred tax assets	9,343	-	9,343	-	6,446	-	Equity attributable to owners of the company (Notes 6(i),(j) and (k)) :						
Other financial assets – non-current (Note 8)	3,413	-	3,442	-	580	-	Capital stock	905,897	24	912,577	22	912,577	23
Other non-current assets (Note 6(g))	105,109	4	8,671	-	7,165	-	Capital surplus	1,655,088	44	1,665,787	41	1,665,787	41
	<u>1,201,638</u>	<u>32</u>	<u>1,067,832</u>	<u>26</u>	<u>1,072,514</u>	<u>26</u>	Retained earnings :						
Total assets	<u>\$ 3,784,264</u>	<u>100</u>	<u>4,078,537</u>	<u>100</u>	<u>4,066,927</u>	<u>100</u>	Legal reserve	342,342	9	254,797	6	254,797	6
							Unappropriated earnings	632,016	17	1,144,248	28	1,058,459	26
								974,358	26	1,399,045	34	1,313,256	32
							Deferred compensation cost arising from issuance of restricted stock	(54,901)	(2)	(99,821)	(2)	(112,836)	(3)
							Treasury stock	-	-	(146,181)	(3)	-	-
							Total equity	<u>3,480,442</u>	<u>92</u>	<u>3,731,407</u>	<u>92</u>	<u>3,778,784</u>	<u>93</u>
							Total liabilities and equity	<u>\$ 3,784,264</u>	<u>100</u>	<u>4,078,537</u>	<u>100</u>	<u>4,066,927</u>	<u>100</u>

See accompanying notes to financial statement.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

LandMark Optoelectronics Corporation

Statements of Comprehensive Income

For the three months and nine months ended September 30, 2017 and 2016

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

	July to September, 2017		July to September, 2016		January to September, 2017		January to September, 2016	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Operating revenue (Note 6(m))	\$ 555,733	100	490,184	100	1,410,934	100	1,759,646	100
Operating costs (Notes 6(d),(h),(k), (n), 7 and 12)	<u>234,874</u>	<u>42</u>	<u>207,764</u>	<u>42</u>	<u>666,711</u>	<u>47</u>	<u>644,250</u>	<u>37</u>
Gross profit	<u>320,859</u>	<u>58</u>	<u>282,420</u>	<u>58</u>	<u>744,223</u>	<u>53</u>	<u>1,115,396</u>	<u>63</u>
Operating expenses (Notes 6(c),(h),(k), (n), 7 and 12) :								
Selling and marketing expenses	13,412	3	10,290	2	32,527	2	27,907	2
General and administrative expenses	23,325	4	17,076	3	62,039	4	45,490	3
Research and development expenses	<u>49,371</u>	<u>9</u>	<u>25,301</u>	<u>5</u>	<u>118,541</u>	<u>9</u>	<u>80,331</u>	<u>4</u>
	<u>86,108</u>	<u>16</u>	<u>52,667</u>	<u>10</u>	<u>213,107</u>	<u>15</u>	<u>153,728</u>	<u>9</u>
Operating income	<u>234,751</u>	<u>42</u>	<u>229,753</u>	<u>48</u>	<u>531,116</u>	<u>38</u>	<u>961,668</u>	<u>54</u>
Non-operating income and expenses (Note 6(o)) :								
Interest income	2,343	1	2,573	1	6,486	-	8,073	-
Other gains and losses	<u>427</u>	<u>-</u>	<u>(4,962)</u>	<u>(1)</u>	<u>(11,279)</u>	<u>-</u>	<u>(11,935)</u>	<u>-</u>
	<u>2,770</u>	<u>1</u>	<u>(2,389)</u>	<u>-</u>	<u>(4,793)</u>	<u>-</u>	<u>(3,862)</u>	<u>-</u>
Profit before income tax	237,521	43	227,364	48	526,323	38	957,806	54
Income tax expenses (Note 6(i))	<u>40,531</u>	<u>7</u>	<u>38,639</u>	<u>8</u>	<u>96,156</u>	<u>7</u>	<u>168,118</u>	<u>9</u>
Net profit	<u>196,990</u>	<u>36</u>	<u>188,725</u>	<u>40</u>	<u>430,167</u>	<u>31</u>	<u>789,688</u>	<u>45</u>
Other comprehensive income :								
Items that will not be reclassified subsequently to profit or loss :								
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 6(i))	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other comprehensive income, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income	<u>\$ 196,990</u>	<u>36</u>	<u>188,725</u>	<u>40</u>	<u>430,167</u>	<u>31</u>	<u>789,688</u>	<u>45</u>
Earnings per share (in dollars), after tax (Note 6(l))								
Basic earnings per share	<u>\$ 2.18</u>		<u>2.08</u>		<u>4.77</u>		<u>8.69</u>	
Diluted earnings per share	<u>\$ 2.18</u>		<u>2.07</u>		<u>4.75</u>		<u>8.65</u>	

See accompanying notes to financial statement.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

LandMark Optoelectronics Corporation
Statements of Changes in Equity

For the nine months ended September 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings						Total equity
	Capital stock	Capital surplus	Legal reserve	Unappropriated earnings	Deferred compensation cost	Treasury stock	
Balance at January 1, 2016	\$ 699,098	1,527,434	155,904	1,206,581	-	-	3,589,017
Net profit	-	-	-	789,688	-	-	789,688
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	789,688	-	-	789,688
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 transaction—restricted stock	3,750	138,353	-	-	(112,836)	-	29,267
Balance at September 30, 2016	\$ 912,577	1,665,787	254,797	1,058,459	(112,836)	-	3,778,784
Balance at January 1, 2017	\$ 912,577	1,665,787	254,797	1,144,248	(99,821)	(146,181)	3,731,407
Net profit	-	-	-	430,167	-	-	430,167
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	430,167	-	-	430,167
Appropriation of 2016 earnings in 2017 :							
Legal reserve	-	-	87,545	(87,545)	-	-	-
Cash dividends	-	-	-	(724,717)	-	-	(724,717)
Compensation cost arising from restricted stock	-	-	-	-	44,920	-	44,920
Treasury stock repurchased	-	-	-	-	-	(1,335)	(1,335)
Treasury stock retired	(6,500)	(10,879)	-	(130,137)	-	147,516	-
Restricted stock repurchased and retired	(180)	180	-	-	-	-	-
Balance at September 30, 2017	\$ 905,897	1,655,088	342,342	632,016	(54,901)	-	3,480,442

See accompanying notes to financial statement.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

LandMark Optoelectronics Corporation

Statements of Cash Flows

For the nine months ended September 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30,	
	2017	2016
Cash flows from operating activities :		
Profit before tax	\$ 526,323	957,806
Adjustments :		
Income and expenses having no effect on cash flows :		
Depreciation expenses	204,363	152,002
Amortization expenses	982	834
Loss on disposal of property, plant and equipment	-	31
Unrealized net gains on change in fair value of financial assets and liabilities at fair value through profit or loss	(145)	(1,738)
Interest income	(6,486)	(8,073)
Compensation cost arising from restricted stocks	44,920	11,940
Allowance for doubtful accounts	-	3,455
Property, plant and equipment transferred to expenses	398	-
Unrealized foreign exchange losses (gains)	(930)	5,089
Total income and expenses having no effect on cash flows	<u>243,102</u>	<u>163,540</u>
Changes in operating assets and liabilities :		
Changes in operating assets :		
Decrease (increase) in notes receivable	(5,741)	138,708
Decrease (increase) in accounts receivable	(154,567)	56,819
Increase in inventories	(69,422)	(38,704)
Increase in prepayments	(3,419)	(3,667)
Increase in other current assets	(5,399)	(5,770)
Decrease in other financial assets— current	386	501
Total changes in operating assets	<u>(238,162)</u>	<u>147,887</u>
Changes in operating liabilities :		
Decrease in financial liabilities at fair value through profit or loss— current	(353)	(1,616)
Increase (decrease) in notes payable	(32,488)	8,738
Increase (decrease) in accounts payable	51,168	(10,008)
Decrease in other payables	(46,263)	(30,576)
Increase in other current liabilities	3,782	3,890
Decrease in defined benefit liability— non-current	(178)	(225)
Total changes in operating liabilities	<u>(24,332)</u>	<u>(29,797)</u>
Net changes in operating assets and liabilities	<u>(262,494)</u>	<u>118,090</u>
Total adjustments	<u>(19,392)</u>	<u>281,630</u>
Cash generated from operating activities	506,931	1,239,436
Interest received	6,486	8,073
Income tax paid	(175,896)	(238,234)
Net cash generated from operating activities	<u>337,521</u>	<u>1,009,275</u>
Cash flows from investing activities :		
Increase in other financial assets— current and non-current	(3,481)	(600)
Acquisition of property, plant and equipment	(161,012)	(226,766)
Acquisition of Intangible assets	(13,598)	-
Increase in other non-current assets	(102,631)	(4,398)
Net cash used in investing activities	<u>(280,722)</u>	<u>(231,764)</u>
Cash flows from financing activities :		
Cash dividends	(724,717)	(629,188)
Issuance (repurchase) of restricted stock	(1,669)	19,252
Repurchase of treasury stock	(1,335)	-
Net cash used in financing activities	<u>(727,721)</u>	<u>(609,936)</u>
Effects of exchange rate changes on balance of cash held in foreign currencies	(5)	(1,775)
Net increase (decrease) in cash and cash equivalents	(670,927)	165,800
Cash and cash equivalents at the beginning of year	2,557,441	2,220,878
Cash and cash equivalents at the end of year	<u>\$ 1,886,514</u>	<u>2,386,678</u>

See accompanying notes to financial statement.

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

As of September 30, 2017 And 2016 Reviewed Only, Not Audited In Accordance With The Generally Accepted Auditing Standards.

LandMark Optoelectronics Corporation

Notes to Financial Statements

September 30, 2017 and 2016

(Expressed in thousands of New Taiwan dollars, unless otherwise noted)

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, high brightness InAlGaP/AlGaInAs.

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. Financial Statements Authorization Date and Authorization Process

The financial statements were authorized for issuance by the Board of the Company on October 31, 2017.

3. New standards and interpretations not yet adopted

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commissions 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:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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
Amendments to IAS 39 "Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting "	January 1, 2014

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 assessed that the initial application of the above IFRSs would not have any material impact on the 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:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "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
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:

(1) 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. The actual impact of adopting IFRS 9 on the Company's financial statements in 2018 can only be determined and reliably estimated depending on the financial instruments that the Company holds and economic conditions at that time, as well as the accounting elections and judgments that it will make in the future. The new standard will require the Company to revise its accounting processes and internal controls related to reporting financial instruments. However, the Company has performed a preliminary assessment of the potential impact of the adoption of IFRS 9 based on its positions at September 30, 2017 and hedging relationships designated under during the nine months of 2017 under IAS 39.

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

i. 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 financial assets 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 preliminary assessment, the Company does not believe that the new classification requirements, if applied at September 30, 2017, would have had a material impact on its accounting for trade receivables.

ii. Impairment-Financial assets and contract 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 preliminary assessment, the Company does not believe that the new impairment requirements under IFRS 9 would have had a material impact.

iii. Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Company’s preliminary 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.

iv. Transition

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

- The Company plans to 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 1 January 2018.

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

- 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.

(2) 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”.

i. 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 preliminary 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.

ii. Transition

The Company plans to adopt IFRS 15 in its financial statements using the retrospective approach. As a result, the Company will apply all of the requirements of IFRS 15 to each comparative period presented and adjust its financial statements. The Company plans to use the practical expedients for completed contracts. This means that completed contracts that began and ended in the same comparative reporting period, as well as the contracts that are completed contracts at the beginning of the earliest period presented, are not restated.

The Company is currently performing a detailed assessment of the impact resulting from the application of IFRS 15 and expects to disclose additional quantitative information before it adopts IFRS 15.

(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:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019

LandMark Optoelectronics Corporation
Notes to Financial Statements (continued)

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

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
January 13, 2016	IFRS 16 “Leases”	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • 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

(a) Statement of compliance

The interim 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 interim financial statements, the Chinese version shall prevail.

These interim financial statements have been prepared in accordance with the preparation and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed by FSC and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to IFRS endorsed by the FSC) for full annual financial statements.

Except the following accounting policies mentioned below, the significant accounting policies adopted in the interim financial statements are the same as those in the financial statement for the year ended December 31, 2016. For the related information, please refer to note 4 of the financial statements for the year ended December 31, 2016.

(b) Provision

The Company has adopted IFRIC 21 Levies with the initial application date on January 1, 2017. According to the Interpretation, the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

(c) Income taxes

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of International Financial Reporting Standards 34, Interim Reporting.

Income tax expenses for the period are best estimated by multiplying pre-tax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

(d) Employee benefits

The pension cost in the interim financial statements was calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year.

5. Significant accounting judgments, estimates, and assumptions, and sources of estimation uncertainty

The preparation of the interim financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 “Interim Financial Reporting” and endorsed by the FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of the interim financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the financial statements for the year ended December 31, 2016. For the related information, please refer to note 5 of the financial statements for the year ended December 31, 2016.

6. Explanation of Significant Accounts

Except for the following disclosures, there is no significant difference as compared with those disclosed in the financial statements for the year ended December 31, 2016. Please refer to Note 6 of the 2016 annual financial statements.

(a) Cash and cash equivalents

	2017.9.30	2016.12.31	2016.9.30
Cash on hand	\$ 343	419	270
Demand and checking deposits	169,024	537,429	364,281
Time deposits	1,576,450	1,819,800	1,822,400
Repurchase agreements collateralized by commercial paper	140,697	199,793	199,727
Total	\$ 1,886,514	2,557,441	2,386,678

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

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

	2017.9.30	2016.12.31	2016.9.30
Financial assets at fair value through profit or loss :			
Derivative instruments not used for hedging:			
Forward exchange contracts	\$ 145	-	1,738
Financial liabilities at fair value through profit or loss :			
Derivative instruments not used for hedging:			
Forward exchange contracts	\$ -	353	-

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

The Company is engaged in the sale of forward exchange contracts, and these contracts are not for trading purposes. Since they did not meet the criteria for hedge accounting, they were classified as financial assets and liabilities at fair value through profit or loss. Please refer to Note 6(o) for the financial assets and liabilities measured at fair value that are recognized in profit or loss. As of September 30, 2017, December 31 and September 30, 2016, the outstanding forward exchange contracts were as follows:

		2017.9.30		
		Contract amount (in thousands)	Currency	Maturity period
Forward exchange sold	\$	4,323	USD	2017.10.27~2017.11.27
Forward exchange sold	\$	600	CNY	2017.10.27
		2016.12.31		
		Contract amount (in thousands)	Currency	Maturity period
Forward exchange sold	\$	870	USD	2017.1.4~2017.2.3
		2016.9.30		
		Contract amount (in thousands)	Currency	Maturity period
Forward exchange sold	\$	5,125	USD	2016.10.14~2016.12.13

(c) Notes and accounts receivable, and other receivables

	2017.9.30	2016.12.31	2016.9.30
Notes receivable	\$ 41,032	35,077	97,993
Accounts receivable	375,199	219,415	310,250
Other receivable	5,931	386	108
Less: allowance for doubtful accounts	(2,839)	(2,839)	(4,139)
	\$ 419,323	252,039	404,212

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

	2017.9.30	2016.12.31	2016.9.30
Overdue 1~60 days	\$ 104,070	26,463	115,464
Overdue more than 60 days	8,228	4,582	-
	\$ 112,298	31,045	115,464

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

For the nine months ended September 30, 2017 and 2016, the movements of allowance for doubtful accounts with respect to notes and accounts receivable, and other receivable were as follows:

		Collectively assessed impairment
Balance at January 1 and September 30, 2017	\$	<u><u>2,839</u></u>
Balance at January 1, 2016	\$	4,139
Recognition of impairment loss		3,455
Amounts written off		<u>(3,455)</u>
Balance at September 30, 2016	\$	<u><u>4,139</u></u>

As of September 30, 2017, December 31 and September 30, 2016, notes and accounts receivable were not pledged as collateral or restricted in any way.

(d) Inventories

	<u>2017.9.30</u>	<u>2016.12.31</u>	<u>2016.9.30</u>
Raw materials and supplies	\$ 164,749	113,491	104,579
Work in progress	23,427	13,150	17,146
Finished goods	<u>65,044</u>	<u>57,157</u>	<u>59,056</u>
	<u><u>\$ 253,220</u></u>	<u><u>183,798</u></u>	<u><u>180,781</u></u>

For the three months and nine months ended September 30, 2017 and 2016, the losses on valuation of inventories were \$6,054, \$13,324, \$20,039 and \$24,969, respectively.

As of September 30, 2017, December 31 and September 30, 2016, the inventories were not pledged as collateral or restricted in any way.

(e) Property, plant and equipment

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

		<u>Buildings and improvements</u>	<u>Machinery and equipment</u>	<u>Transportation equipment</u>	<u>Electrical equipment</u>	<u>Office and other equipment</u>	<u>Construction in progress and testing equipment</u>	<u>Total</u>
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	203,216	222,949
Disposals		-	-	-	1,143	9,958	-	11,101
Reclassification		-	33,209	-	-	172,788	(200,183)	5,814 (Note1)
Balance at September 30, 2017	\$	<u>171,300</u>	<u>610,097</u>	<u>3,859</u>	<u>15,350</u>	<u>964,427</u>	<u>209,835</u>	<u>1,974,868</u>
Balance at January 1, 2016	\$	148,900	446,898	3,859	17,607	662,122	157,312	1,436,698
Additions		2,240	1,318	-	-	25,705	179,620	208,883
Disposals		-	-	-	1,114	-	-	1,114
Reclassification		20,160	107,601	-	-	50,530	(111,941)	66,350 (Note2)
Balance at September 30, 2016	\$	<u>171,300</u>	<u>555,817</u>	<u>3,859</u>	<u>16,493</u>	<u>738,357</u>	<u>224,991</u>	<u>1,710,817</u>

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

	Buildings and improvements	Machinery and equipment	Transportation equipment	Electrical equipment	Office and other equipment	Construction in progress and testing equipment	Total
Accumulated depreciation and impairment loss:							
Balance at January 1, 2017	\$ 13,797	355,694	1,315	4,868	335,156	-	710,830
Depreciation	3,620	72,331	482	661	127,269	-	204,363
Disposals	-	-	-	1,143	9,958	-	11,101
Balance at September 30, 2017	<u>\$ 17,417</u>	<u>428,025</u>	<u>1,797</u>	<u>4,386</u>	<u>452,467</u>	<u>-</u>	<u>904,092</u>
Balance at January 1, 2016	\$ 9,026	281,045	672	4,977	205,855	-	501,575
Depreciation	3,565	52,233	482	754	94,968	-	152,002
Disposals	-	-	-	1,083	-	-	1,083
Balance at September 30, 2016	<u>\$ 12,591</u>	<u>333,278</u>	<u>1,154</u>	<u>4,648</u>	<u>300,823</u>	<u>-</u>	<u>652,494</u>
Carrying amounts:							
Balance at January 1, 2017	<u>\$ 157,503</u>	<u>221,194</u>	<u>2,544</u>	<u>11,625</u>	<u>446,708</u>	<u>206,802</u>	<u>1,046,376</u>
Balance at September 30, 2017	<u>\$ 153,883</u>	<u>182,072</u>	<u>2,062</u>	<u>10,964</u>	<u>511,960</u>	<u>209,835</u>	<u>1,070,776</u>
Balance at January 1, 2016	<u>\$ 139,874</u>	<u>165,853</u>	<u>3,187</u>	<u>12,630</u>	<u>456,267</u>	<u>157,312</u>	<u>935,123</u>
Balance at September 30, 2016	<u>\$ 158,709</u>	<u>222,539</u>	<u>2,705</u>	<u>11,845</u>	<u>437,534</u>	<u>224,991</u>	<u>1,058,323</u>

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 \$398, 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.

(f) Intangible assets

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

	Computer software
Costs:	
Balance at January 1, 2017	\$ -
Additions	13,598
Balance at September 30, 2017	<u>\$ 13,598</u>
Accumulated amortization:	
Balance at January 1, 2017	\$ -
Amortization	601
Balance at September 30, 2017	<u>\$ 601</u>
Carrying amounts:	
Balance at January 1, 2017	\$ -
Balance at September 30, 2017	<u>\$ 12,997</u>
Balance at January 1, 2016	\$ -
Balance at September 30, 2016	<u>\$ -</u>

LandMark Optoelectronics Corporation
Notes to Financial Statements (continued)

(g) Other non-current assets	<u>2017.9.30</u>	<u>2016.12.31</u>	<u>2016.9.30</u>
Prepayment for equipment	\$ 99,966	6,332	6,631
Prepayment for computer software	2,684	-	-
Others	<u>2,459</u>	<u>2,339</u>	<u>534</u>
	<u>\$ 105,109</u>	<u>8,671</u>	<u>7,165</u>

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

(h) Employee benefits

1. Defined benefit plan

Given there was no significant volatility of the market, curtailment, reimbursement, settlement or other one-time event subsequent to the end of the prior fiscal year, pension cost in the interim financial statements was calculated on a year-to-date basis using the actuarially determined pension cost at December 31, 2016 and 2015.

Expenses recognized were as follows:

	<u>July to September, 2017</u>	<u>July to September, 2016</u>	<u>January to September, 2017</u>	<u>January to September, 2016</u>
Cost of sales	\$ 12	15	38	46
Selling expenses	-	1	2	3
General and administrative expenses	1	2	4	4
Research and development expenses	<u>2</u>	<u>1</u>	<u>4</u>	<u>4</u>
	<u>\$ 15</u>	<u>19</u>	<u>48</u>	<u>57</u>

2. Defined contribution plan

A summary of pension costs under the defined contribution method is as follows. Payment was made to the Bureau of Labor Insurance.

	<u>July to September, 2017</u>	<u>July to September, 2016</u>	<u>January to September, 2017</u>	<u>January to September, 2016</u>
Cost of sales	\$ 1,527	1,618	4,515	4,592
Selling expenses	169	147	391	458
General and administrative expenses	180	130	538	351
Research and development expenses	<u>263</u>	<u>121</u>	<u>568</u>	<u>401</u>
	<u>\$ 2,139</u>	<u>2,016</u>	<u>6,012</u>	<u>5,802</u>

(i) Income taxes

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

	<u>July to September, 2017</u>	<u>July to September, 2016</u>	<u>January to September, 2017</u>	<u>January to September, 2016</u>
Current tax expense				
Current period	\$ 40,531	38,639	95,942	167,775
Adjustment for prior periods	-	-	214	343
Income tax expense	<u>\$ 40,531</u>	<u>38,639</u>	<u>96,156</u>	<u>168,118</u>

LandMark Optoelectronics Corporation
Notes to Financial Statements (continued)

There were no income tax expense recognized in equity and other comprehensive income for the three months and nine months ended September 30, 2017 and 2016.

2. The Company's income tax returns for all fiscal years up to 2015 have been examined and approved by the tax authority.
3. Information related to the unappropriated earnings and tax deduction ratio is summarized below:

	2017.9.30	2016.12.31	2016.9.30
Unappropriated earnings of 1998 and after	\$ 632,016	1,144,248	1,058,459
Balance of imputation credit account (ICA)	\$ 69,604	155,710	55,658

The Company's tax creditable ratios for earnings distributed to residents of the R.O.C. for the years ended December 31, 2016 and 2015 were 20.98% and 20.69%, 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. From the tax year 2015, only 50% of the corporate income tax can be credited against the individual income tax. For taxpayers residing outside the R.O.C., the 10% of retained earnings tax can be credited against the dividend withholding tax once the Company distributes its dividends from the corresponding retained earnings in subsequent years, but only 50% of the retained earnings tax paid can be credited against the individual income tax.

(j) Share capital and other equity

As of September 30, 2017, December 31 and September 30, 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 90,590 thousand shares, 91,257 thousand shares and 91,257 thousand shares, respectively. All the capitals were fully received.

Except as stated below, there were no material changes in the share capital and other equity during the nine months ended September 30, 2017 and 2016. For more information, please refer to Note 6(i) of the financial statements in 2016.

(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. As of August 8, 2016, 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 September 30, 2017 and 2016, the deferred compensation cost arising from issuance of restricted stock amounted to \$54,901 and \$112,836, respectively, which were accounted for under other adjustments to shareholders' equity.

(2) Retirement of common stock

On April 8, 2017, the Company's board of directors approved a resolution to retire 18 thousand shares of restricted stock which are non-vested. The basis date of the decrease in capital was May 2, 2017, 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.

LandMark Optoelectronics Corporation
Notes to Financial Statements (continued)

(3) Capital surplus

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

	<u>2017.9.30</u>	<u>2016.12.31</u>	<u>2016.9.30</u>
Additional paid-in capital	\$ 1,516,555	1,527,434	1,527,434
Restricted stock	138,533	138,353	138,353
Total	<u>\$ 1,655,088</u>	<u>1,665,787</u>	<u>1,665,787</u>

(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.

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

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 nine months ended September 30, 2017 and for the year ended December 31, 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 30 September 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.

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

(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.

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:

	<u>January to September, 2017</u>	<u>January to September, 2016</u>
Outstanding at January 1	\$ 375	-
Granted	-	375
Retired	(18)	-
Repurchased, not retired	(14)	-
Outstanding at September 30	<u>343</u>	<u>375</u>

(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 three months and nine months ended September 30, 2017 and 2016, the compensation cost of restricted stock amounted to \$14,974, \$11,940, \$44,920 and \$11,940, respectively, which were recognized as operating cost or operating expenses. The change in remaining transactions of share-based payment were not significant. For the related information, please refer to note 6(j) of the financial statements for the year ended December 31, 2016.

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

(l) Earnings per share

The basic and diluted earnings per share (expressed in New Taiwan dollars) were calculated as follows:

	Unit of shares: thousand			
	<u>July to September, 2017</u>	<u>July to September, 2016</u>	<u>January to September, 2017</u>	<u>January to September, 2016</u>
Basic earnings per share:				
Profit attributable to ordinary shareholders of the Company	\$ 196,990	188,725	430,167	789,688
Weighted-average number of common shares outstanding	90,233	90,883	90,233	90,883
	<u>\$ 2.18</u>	<u>2.08</u>	<u>4.77</u>	<u>8.69</u>
Diluted earnings per share:				
Profit attributable to ordinary shareholders of the Company (diluted)	\$ 196,990	188,725	430,167	789,688
Weighted-average number of common shares outstanding	90,233	90,883	90,233	90,883
Effect of employee compensation	124	243	273	379
Restricted stock	129	-	129	-
Weighted-average number of common shares outstanding	90,486	91,126	90,635	91,262
	<u>\$ 2.18</u>	<u>2.07</u>	<u>4.75</u>	<u>8.65</u>

For the three months and nine months ended September 30, 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 shares.

(m) Revenue

Details of revenue were as follows:

	<u>July to September, 2017</u>	<u>July to September, 2016</u>	<u>January to September, 2017</u>	<u>January to September, 2016</u>
Sale of goods	\$ 555,733	490,184	1,410,934	1,759,646

(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 three months and nine months ended September 30, 2017 and 2016, the remuneration to employees amounted to \$20,960, \$19,981, \$46,347 and \$84,118, respectively, and the remuneration of directors amounted to \$2,620, \$2,498, \$5,793 and \$10,515, respectively, were estimated based on the Company's net income before tax, excluding remuneration of employees and of directors, multiplied by the appropriate percentage in compliance with the Company's articles. These expenses were recognized in operating costs and operating expenses for the current period. For any change after the issuance date of the financial statements, the difference shall be accounted for as a change in accounting estimate and recognized in profit or loss in the following year.

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015, the remuneration to employees amounted to \$92,974 and \$104,888, respectively, and the remuneration of directors amounted to \$11,622 and \$13,111. The remuneration of employees and of directors have no differences between the estimated amounts and the amounts approved by the board of directors. The related information can be accessed through the Market Observation Post System.

(o) Non-operating income and expenses

1. Interest income

	July to September, 2017	July to September, 2016	January to September, 2017	January to September, 2016
Bank deposits	\$ <u>2,343</u>	\$ <u>2,573</u>	\$ <u>6,486</u>	\$ <u>8,073</u>

2. Other gains and losses

Details of other gains and losses were as follows:

	July to September, 2017	July to September, 2016	January to September, 2017	January to September, 2016
Foreign exchange gains (losses), net	\$ (662)	(10,689)	(17,269)	(17,208)
Losses on disposal of property, plant and equipment	-	-	-	(31)
Gains on valuation of financial assets and liabilities by fair value, net	676	4,581	1,071	7,372
Others	413	1,146	4,919	(2,068)
	\$ <u>427</u>	\$ <u>(4,962)</u>	\$ <u>(11,279)</u>	\$ <u>(11,935)</u>

(p) Financial instruments

Except as stated below, there were no material changes in fair value of financial instruments and financial instruments exposed to credit risk, liquidity risk, and market risk. For more information, please refer to Note 6(o) to the financial statements of 2016.

(1) Credit risk

As of September 30, 2017, December 31, and September 30, 2016, a few customers of the Company accounted for 72%, 66% and 63%, respectively, of accounts receivable. However, 6%, 13% and 24%, 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
September 30, 2017							
Non-derivative financial liabilities							
Non-interest-bearing liabilities	\$ <u>195,049</u>	\$ <u>195,049</u>	\$ <u>195,049</u>	-	-	-	-

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

	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, 2016							
Non-derivative financial liabilities							
Non-interest-bearing liabilities	\$ 105,845	105,845	105,845	-	-	-	-
Derivative financial liabilities							
Forward exchange contracts	353	353	353	-	-	-	-
	<u>\$ 106,198</u>	<u>106,198</u>	<u>106,198</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
September 30, 2016							
Non-derivative financial liabilities							
Non-interest-bearing liabilities	\$ 79,206	79,206	79,206	-	-	-	-

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

(3) Foreign currency risk

1. Exposure to foreign currency risk

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

Unit of foreign currency: thousand

	2017.9.30			2016.12.31			2016.9.30		
	Foreign currency	Exchange rate	TWD amount	Foreign currency	Exchange rate	TWD amount	Foreign currency	Exchange rate	TWD amount
<u>Financial assets</u>									
<u>Monetary items</u>									
USD	\$ 13,808	30.26	417,823	9,123	32.25	294,223	12,401	31.36	388,905
CNY	5,249	4.551	23,888	1,475	4.617	6,811	446	4.693	2,093
<u>Non-Monetary items</u>									
USD	4,323	30.26	130,814	-	-	-	5,125	31.36	160,720
<u>Financial liabilities</u>									
<u>Monetary items</u>									
USD	4,213	30.26	127,476	428	32.25	13,789	548	31.36	17,193
<u>Non-Monetary items</u>									
USD	-	-	-	870	32.25	28,058	-	-	-
CNY	600	4.551	2,730	-	-	-	-	-	-

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

	July to September, 2017		July to September, 2016		January to September, 2017		January to September, 2016	
	Exchange gain (loss)	Average rate	Exchange gain (loss)	Average rate	Exchange gain (loss)	Average rate	Exchange gain (loss)	Average rate
TWD	\$ <u>(662)</u>	-	<u>(10,689)</u>	-	<u>(17,269)</u>	-	<u>(17,208)</u>	-

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

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 had increased or decreased by 3%, given no changes in other factors, profit after tax would have increased or decreased by \$7,824 and \$9,308 for the nine months ended September 30, 2017 and 2016, respectively.

(4) 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:

	2017.9.30				
	Carrying amount	Fair Value			Total
	Level 1	Level 2	Level 3		
Financial assets at fair value through profit or loss					
Derivative financial assets	<u>\$ 145</u>		145		145
Loans and receivable					
Cash and cash equivalents	\$ 1,886,514	-	-	-	-
Notes and accounts receivable	<u>413,392</u>	-	-	-	-
Total	<u><u>\$ 2,299,906</u></u>				
Other financial assets—current and non-current	<u>\$ 15,530</u>	-	-	-	-
Financial liabilities measured at amortized cost					
Payables	<u>\$ 195,049</u>	-	-	-	-
	2016.12.31				
	Carrying amount	Fair Value			Total
	Level 1	Level 2	Level 3		
Loans and receivable					
Cash and cash equivalents	\$ 2,557,441	-	-	-	-
Notes and accounts receivable	<u>251,653</u>	-	-	-	-
Total	<u><u>\$ 2,809,094</u></u>				
Other financial assets—current and non-current	<u>\$ 12,435</u>	-	-	-	-
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	<u>\$ 353</u>	-	353	-	353
Financial liabilities measured at amortized cost					
Payables	<u>\$ 105,845</u>	-	-	-	-

LandMark Optoelectronics Corporation
Notes to Financial Statements (continued)

	2016.9.30				
	Carrying amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets	\$ <u>1,738</u>	-	1,738	-	1,738
Loans and receivable					
Cash and cash equivalents	\$ 2,386,678	-	-	-	-
Notes and accounts receivable	<u>404,104</u>	-	-	-	-
Total	<u>\$ 2,790,782</u>				
Other financial assets—current and non-current	<u>\$ 9,271</u>	-	-	-	-
Financial liabilities measured at amortized cost					
Payables	<u>\$ 79,206</u>	-	-	-	-

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 liability that are not based on observable market data (unobservable inputs).

There was no reclassification of levels during the nine months ended September 30, 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

The financial risk management goals, policies and procedures were consistent with those stated in the Note 6(p) to the financial statements of 2016.

(r) Capital management

The capital management goals, policies and procedures were consistent with those stated in the financial statements of 2016. The quantitative data on capital management stated in the notes to the financial statements of 2016 had no material changes during of 2016. For more information, please refer to the Note 6(q) to the financial statements of 2016.

LandMark Optoelectronics Corporation
Notes to Financial Statements (continued)

7. Related-party Transactions

Key management personnel compensation comprised

	July to September, 2017	July to September, 2016	January to September, 2017	January to September, 2016
Short-term employee benefits	\$ 10,413	15,163	27,488	44,443
Post-employment benefits	129	161	389	482
Share-based payments	3,379	2,253	10,138	2,253
	\$ 13,921	17,577	38,015	47,178

8. Pledged Assets

The carrying values of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>2017.9.30</u>	<u>2016.12.31</u>	<u>2016.9.30</u>
Other financial assets—current and non-current (restricted bank deposits)	Post-release duty payment of import cargo, Southern Taiwan Science Park's lease and notional forward exchange deposits	\$ <u>15,145</u>	<u>11,607</u>	<u>8,583</u>

9. Commitments and Contingencies

(a) The Company signed contracts with domestic and foreign vendors for purchasing property, plant and equipment. As of September 30, 2017, December 31 and September 30, 2016, the contracts amounted to \$404,981, \$186,601 and \$220,126, respectively, and the unpaid payment was \$105,644, \$21,395 and \$39,685, respectively.

(b) The Company entered into rental agreements with the Southern Taiwan Science Park for land ranging from August 1, 2010, to July 31, 2030. The future rental commitments are as follows:

	<u>2017.9.30</u>	<u>2016.12.31</u>	<u>2016.9.30</u>
Less than one year	\$ 2,368	2,368	2,462
Between one and five years	9,471	9,471	9,846
More than five years	18,547	20,323	21,744
	\$ <u>30,386</u>	<u>32,162</u>	<u>34,052</u>

10. Losses Due to Major Disasters: None.

11. Significant Subsequent Events: None.

LandMark Optoelectronics Corporation
Notes to Financial Statements (continued)

12. Other

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

	July to September, 2017			July to September, 2016		
	Classified as cost of sales	Classified as operating expenses	Total	Classified as cost of sales	Classified as operating expenses	Total
Employee benefits						
Salary	47,411	36,010	83,421	48,791	29,093	77,884
Labor and health insurance	2,885	3,090	5,975	2,938	982	3,920
Pension	1,539	615	2,154	1,633	402	2,035
Others	1,551	831	2,382	1,370	814	2,184
Depreciation	60,493	10,661	71,154	46,822	8,661	55,483
Amortization	45	601	646	195	-	195

	January to September, 2017			January to September, 2016		
	Classified as cost of sales	Classified as operating expenses	Total	Classified as cost of sales	Classified as operating expenses	Total
Employee benefits						
Salary	131,758	100,583	232,341	153,468	81,852	235,320
Labor and health insurance	8,545	4,823	13,368	8,336	2,924	11,260
Pension	4,553	1,507	6,060	4,638	1,221	5,859
Others	4,328	2,343	6,671	5,198	2,772	7,970
Depreciation	169,599	34,764	204,363	126,214	25,788	152,002
Amortization	381	601	982	827	7	834

(b) Seasonality or cyclicity of interim operations

The operations of the Company are neither seasonal nor cyclical.

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. Fund financing to others: 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.

LandMark Optoelectronics Corporation

Notes to Financial Statements (continued)

5. Information on the acquisition of real estate which exceeds NT\$300 million or 20% of the paid-in capital: None.
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: Please refer to Note 6(b).
10. Business relationships and significant intercompany transactions: None.

(b) Information on investees: None.

(c) Information on investment in Mainland China: None.

14. Segment 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.