Acter Co. Ltd. and Subsidiaries

Consolidated Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Acter Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Acter Co., Ltd. (Acter) and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Acter's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Acter Co., Ltd. and subsidiaries as of December 31, 2012 and 2011, and the results of their consolidated operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Hsinchu, Taiwan (the Republic of China)

February 26, 2013

The accompanying consolidated financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with 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 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.

Acter Co., Ltd. and Subsidiaries
Consolidated Balance Sheets
December 31, 2012 and 2011
(In thousands of New Taiwan dollars)

Assets	2012 Amount	2012 %	2011 Amount	2011 %
Current assets:				
Cash and cash equivalents (note 4(a))	$ 1,934,995	28	1,934,358	29
Available-for-sale financial assets－current (note 4(b))	248,842	4	82,143	1
Notes receivable, net (note 4(c))	257,690	4	280,800	4
Accounts receivable, net (note 4(c))	1,718,670	25	1,672,137	25
Receivables from related parties (note 5)	6,522	-	340,642	5
Other receivables from related parties (note 5)	11,931	-	-	-
Other financial assets－current	84,799	1	123,742	2
Inventories, net (note 4(d))	790,922	11	789,250	12
Construction-in-progress, net of billings on construction-in-progress (notes 4(e) and 5)	1,010,787	15	789,076	12
Deferred income tax assets－current (note 4(j))	52,710	1	47,594	1
Restricted assets (note 6)	17,922	-	24,710	-
Prepayments for purchases and other current assets	331,499	5	146,337	3
	6,467,289	94	6,230,789	94
Investments:				
Investments accounted for using equity method (note 4(f))	3,682	-	15,581	-
Financial assets carried at cost－non-current (note 4(b))	6,987	-	35,387	1
	10,669	-	50,968	1
Property, plant and equipment (notes 5 and 6):				
Land	151,631	2	151,631	3
Buildings	153,198	2	87,994	1
Other equipment	87,233	1	66,073	1
	392,062	5	305,698	5
Less: accumulated depreciation	(51,611)	(1)	(43,007)	(1)
Prepayments for equipment	-	-	4,842	-
	340,451	4	267,533	4
Intangible assets				
Computer software	9,041	-	8,574	-
Deferred pension cost (note 4(i))	10,702	-	9,662	-
Land use rights	36,974	1	38,862	1
	56,717	1	57,098	1
Other assets:				
Lease assets (notes 4(g) and 6)	31,550	1	31,895	-
Refundable deposit	8,710	-	11,761	-
Other assets – other (notes 4(i) and (j))	5,530	-	936	-
	45,790	1	44,592	-
Total assets	$ 6,920,916	100	6,650,980	100

Liabilities and Stockholders' Equity	2012 Amount	2012 %	2011 Amount	2011 %
Current liabilities:				
Short-term borrowings (notes 4(h) and 6)	$ 152,160	2	160,166	2
Notes payable	196,567	3	397,022	6
Accounts payable	2,051,389	30	1,862,435	28
Payables to related parties (note 5)	-	-	10,272	-
Income tax payable	112,817	2	126,235	2
Unearned sales revenue	702,074	10	719,605	11
Billings on construction-in-progress, net of construction-in-progress (notes 4(e) and 5)	560,823	8	513,689	8
Deferred income tax liabilities – current (note 4(j))	3,288	-	660	-
Accrued expenses and other current liabilities (note 4(k))	259,080	4	244,738	4
	4,038,198	59	4,034,822	61
Other liabilities				
Accrued pension liabilities (note 4(i))	15,891	-	15,794	-
Deposit received	312	-	312	-
Deferred income tax liability－non-current (note 4(j))	152,913	2	118,393	2
	169,116	2	134,499	2
Total liabilities	4,207,314	61	4,169,321	63
Stockholders' equity (note 4(k)):				
Common stock	461,359	7	461,359	7
Capital surplus	896,599	13	896,599	13
Retained earnings:				
Legal reserve	216,384	3	160,418	2
Special reserve	-	-	11,930	-
Unappropriated earnings	1,125,695	16	921,624	14
	1,342,079	19	1,093,972	16
Other adjustments to stockholders' equity:				
Cumulative translation adjustments	11,127	-	34,606	1
Unrecognized pension costs (note 4(i))	(2,170)	-	(3,215)	-
Unrealized gains on financial instruments	4,608	-	(1,662)	-
	13,565	-	29,729	1
Total stockholders' equity	2,713,602	39	2,481,659	37
Commitments and contingencies (note 7)				
Total liabilities and stockholders' equity	$ 6,920,916	100	6,650,980	100

See accompanying notes to consolidated financial statements.

Acter Co., Ltd. and Subsidiaries

Consolidated Statements of Operations

Years ended December 31, 2012 and 2011
(In thousands of New Taiwan dollars, except for earnings per common share)

	2012 Amount	2012 %	2011 Amount	2011 %
Operating revenue:				
Construction revenue	$ 7,355,980	86	7,848,147	92
Less: allowances	(1,824)	-	(901)	-
Net construction revenue (note 5)	7,354,156	86	7,847,246	92
Sales	1,096,735	13	631,383	7
Other operating revenue (note 5)	47,025	1	58,949	1
Net operating revenue	8,497,916	100	8,537,578	100
Operating cost:				
Construction cost (note 5)	6,182,702	73	6,907,150	81
Cost of goods sold (notes 4(d) and 5)	896,532	10	510,653	6
Other operating cost	8,996	-	8,390	-
	7,088,230	83	7,426,193	87
Gross profit	1,409,686	17	1,111,385	13
Operating expenses (note 5):				
Selling	95,155	1	92,539	1
General and administrative	310,356	4	251,321	3
Research and development	22,442	-	-	-
	427,953	5	343,860	4
Operating income	981,733	12	767,525	9
Non-operating income and gains:				
Interest income	12,719	-	7,141	-
Gain on disposal of investment, net	5,323	-	2,500	-
Foreign exchange gain, net	-	-	6,251	-
Gain on reversal of bad debts (note 4(c))	-	-	14,171	-
Other income (note 5)	12,774	-	11,896	-
	30,816	-	41,959	-
Non-operating expenses and loss:				
Interest expense	3,795	-	4,062	-
Investment loss recognized by equity method (note 4(f))	17,265	-	2,944	-
Foreign exchange loss, net	5,209	-	-	-
Impairment loss on financial instruments (note 4(b))	28,659	1	-	-
Other loss	2,370	-	2,319	-
	57,298	1	9,325	-
Income before income taxes	955,251	11	800,159	9
Income tax expenses (note 4(j))	245,718	3	240,495	2
Consolidated net income	$ 709,533	8	559,664	7

	2012 Before taxes	2012 After taxes	2011 Before taxes	2011 After taxes
Earnings per share (NT$) (note 4(l)):				
Basic earnings per share	$ 20.71	15.38	19.01	13.30
Diluted earnings per share	$ 20.55	15.26	18.90	13.22

See accompanying notes to consolidated financial statements.

Acter Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2012 and 2011

(In thousands of New Taiwan dollars)

	Common stock	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Unappro-priated earnings	Other adjustments to stockholders' equity: Cumulative translation adjustments	Other adjustments to stockholders' equity: Unrecognized pension costs	Other adjustments to stockholders' equity: Unrealized gains on financial instruments	Total stockholders' equity
Balance at January 1, 2011	$ 415,359	539,869	87,804	-	861,862	(15,067)	(2,711)	5,848	1,892,964
Appropriation of earnings (note 1):									
Legal reserve	-	-	72,614	-	(72,614)	-	-	-	-
Special reserve	-	-	-	11,930	(11,930)	-	-	-	-
Cash dividends	-	-	-	-	(415,358)	-	-	-	(415,358)
Issuance of common stock for cash and compensation cost arising from employee subscription rights	46,000	356,730	-	-	-	-	-	-	402,730
Unrealized gains on financial instruments	-	-	-	-	-	-	-	(7,510)	(7,510)
Unrecognized pension cost	-	-	-	-	-	-	(504)	-	(504)
Translation adjustment	-	-	-	-	-	49,673	-	-	49,673
Net income for 2011	-	-	-	-	559,664	-	-	-	559,664
Balance as of December 31, 2011	**$** 461,359	896,599	160,418	11,930	921,624	34,606	(3,215)	(1,662)	2,481,659
Appropriation of earnings (note 2):									
Legal reserve	-	-	55,966	-	(55,966)	-	-	-	-
Special reserve	-	-	-	(11,930)	11,930	-	-	-	-
Cash dividends	-	-	-	-	(461,358)	-	-	-	(461,358)
Unrealized gains on financial instruments	-	-	-	-	-	-	-	6,270	6,270
Unrecognized pension cost	-	-	-	-	-	-	1,045	-	1,045
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	-	-	(68)	-	-	-	(68)
Translation adjustment	-	-	-	-	-	(23,479)	-	-	(23,479)
Net income for 2012	-	-	-	-	709,533	-	-	-	709,533
Balance as of December 31, 2012	**$** 461,359	896,599	216,384	-	1,125,695	11,127	(2,170)	4,608	2,713,602

Note 1: Employees' bonuses and remuneration to directors and supervisors in the amount of $14,070 and $19,248, respectively, had been charged against earnings of 2010.
Note 2: Employees' bonuses and remuneration to directors and supervisors in the amount of $17,232 and $14,428, respectively, had been charged against earnings of 2011.

See accompanying notes to consolidated financial statements.

Acter Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011
(In thousands of New Taiwan dollars)

	2012	2011
Cash flows from operating activities:		
Net income	$ 709,533	559,664
Adjustments:		
Gain on disposal of investment	(5,323)	(2,500)
Provision (reversal of provision) for bad debt expense	18,064	(14,171)
Provision (reversal of provision) for inventory obsolescence	100	(2,035)
Investment loss recognized by equity method	17,265	2,944
Depreciation and amortization	20,394	14,115
Impairment loss on financial instruments	28,659	-
Recognition of compensation cost arising from employee subscription rights	-	4,830
Deferred income tax expense	36,837	19,157
Non-cash-related pension cost	(281)	1,023
Adjustment for other non-cash-related losses, net	511	21
Net change in operating assets and liabilities:		
Notes receivable and accounts receivable (including related parties)	293,135	(883,129)
Other receivable from related parties	(11,931)	-
Inventories	(1,772)	(476,788)
Net construction-in-progress	(174,577)	117,849
Other financial assets and other current assets	(178,910)	(72,077)
Notes payable and accounts payable (including related parties)	(21,773)	484,820
Income tax payable	(13,418)	14,790
Unearned sales revenue	(17,531)	506,703
Accrued expenses and other current liabilities	14,343	55,244
Cash provided by operating activities	713,325	330,460
Cash flows from investing activities:		
Disposal (purchase) of available-for-sale financial assets	(155,421)	535,964
Decrease in restricted assets	6,788	71,704
Increase in investment accounted for using equity method	(5,857)	(17,806)
Increase in financial assets carried at cost	-	(24,000)
Acquisition of property, plant and equipment	(88,490)	(201,778)
Disposal of property, plant and equipment	61	761
Acquisition of computer software	(3,535)	(7,351)
Acquisition of land use rights	-	(37,015)
Decrease in refundable deposit(including refundable construction deposit)	35,742	28,777
Increase in other assets	(7,115)	(947)
Cash provided by (used in) investing activities	(217,827)	348,309
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	(8,006)	139,413
Cash dividends	(461,358)	(415,358)
Issuance of common stock for cash	-	397,900
Net cash provided by (used in) financing activities	(469,364)	121,955
Effect of exchange rate changes	(25,497)	51,743
Net increase in cash and equivalents	637	852,467
Cash and equivalents at beginning of year	1,934,358	1,081,891
Cash and equivalents at end of year	**$ 1,934,995**	**1,934,358**
Supplemental disclosure of cash flow information:		
Interest paid	**$ 4,064**	**4,062**
Income tax paid	**$ 221,710**	**218,043**

See accompanying notes to consolidated financial statements.

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(Amounts expressed in thousands of New Taiwan dollars, except for per share information and unless otherwise noted)

(1) Organization

Acter Co., Ltd. ("Acter") was incorporated on February 19, 1979, under the approval of the Ministry of Economic Affairs, R.O.C. Acter is engaged in providing construction, design, and maintenance services related to air conditioners, environmental control services, clean room setup, ice water machine trading, energy storing equipment trading, ventilation engineering, and energy technology services. Acter's common shares were publicly listed on the Over-the-Counter Market ("OTC") on November 10, 2010.

As of December 31, 2012 and 2011, Acter and its subsidiaries ("the Company") had 933 and 819 employees, respectively.

(2) Summary of Significant Accounting Policies

The accompanying consolidated financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC). The major accounting policies and measurement bases adopted in preparing the accompanying consolidated financial statements are summarized as follows:

(a) Overview of consolidated entities

(i) The consolidated subsidiaries of Acter are summarized below:

Investor	Investee	Business	Percentage of ownership at December 31, 2012	2011
(1) Acter	Nova Technology Corp. (Nova Tech)	Wholesaling of electronic and chemical equipment	100%	100%
	HerSuo Engineering Co., Ltd. (Her Suo)	Construction and setup of freezing equipment	100%	100%
	Sheng Huei International Co., Ltd. (Sheng Huei International)	Holding company	100%	100%
	Nova Technology Singapore Pte., Ltd. (NTS)	Auto-supply system for semiconductors	100%	100%
(2) Nova Tech	Winmax Technology Corp.	Design and manufacture of air containers and liquid containers	100%	100%

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Investor	Investee	Business	Percentage of ownership at December 31, 2012	2011
(3) Sheng Huei International	Sheng Huei (Suzhou) Engineering Co., Ltd. (Sheng Huei Suzhou)	Construction and setup of electronic equipment and air conditioners	100%	100%
	Acter Trading Co., Ltd.	Agent for electronic equipment importing and exporting	100%	100%
	Acter International Ltd. (Acter International)	Holding company and trading of clean rooms and air conditioners	100%	100%
	New Point Group Ltd. (New Point)	Holding company and trading of clean rooms and air conditioners	100%	100%
	Sheng Huei Engineering Technology Co., Ltd.	Setup of electronic protection systems and central air conditioners	100%	100%
(4) NTS	Nova Technology Malaysia Sdn. Bhd.(NTM)	Auto-supply system for semiconductors	100%	-
(5) Sheng Huei Suzhou	Shenzhen Ding-Mao Trade Co., Ltd.	Electronic equipment and machinery trading	100%	-
(6) Acter International	Sheng Huei (Shenzhen) Engineering Co., Ltd.	Construction and setup of electronic equipment and air conditioners	100%	100%
	Suzhou Ding-Mao Engineering Co., Ltd.	Construction and setup of electronic equipment and air conditioners	100%	100%
(7) New Point	Zhangjiagang Free Trade Zone Fuyu International Trade Co., Ltd. (Fuyu)	Agent for electronic equipment importing and exporting	100%	100%

(ii) Change in subsidiaries included in the consolidated financial statements

NTS invested in 100% of the shares of NTM in Malaysia on January 1, 2012. Sheng Huei Suzhou invested in 100% of the shares of Shenzhen Ding-Mao in Shenzhen on October 10, 2012. From the setup date, the investees were included in the consolidation.

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(b) Basis of consolidation

The consolidated financial statements include the accounts of Acter and its subsidiaries in which Acter directly or indirectly owns over 50% of the voting shares and is able to exercise control over the subsidiary's operations and financial policies. Acter and such subsidiaries are referred to individually or collectively as "the Company". All significant inter-company transactions and balances are eliminated in consolidation.

(c) Use of estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and disclosures of contingent liabilities. Actual results could differ from these estimates.

(d) Foreign currency transactions and translation

The Company and its subsidiaries record transactions in their respective functional currency. Foreign currency transactions are recorded at the exchange rates prevailing at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates prevailing on that date. The resulting exchange gains or losses from settlement of such transactions or translations of monetary assets and liabilities are reflected in the accompanying statements of operations. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into New Taiwan dollars at the exchange rates ruling at the dates the fair value was determined. If the non-monetary assets or liabilities are measured at fair value through profit or loss, then the resulting unrealized exchange gains or losses from such translations are recorded in current profit or loss. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, then the resulting unrealized exchange gains or losses from such translations are recorded as a separate component of stockholders' equity.

The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date, with the exception of stockholders' equity, which is translated at historical rates, and revenue, costs, and expenses, which are translated at the weighted-average exchange rates during the reporting period. Translation differences resulting from the translation of such financial statements into New Taiwan dollars are recorded as translation adjustment, a separate component of stockholders' equity.

(e) Principles of classifying assets and liabilities as current and non-current

Assets or liabilities related to long-term construction are classified as current or non-current based on the business operation life cycle.

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Cash or cash equivalents that are not restricted in use, assets held for the purpose of trading, and assets that will be held for a short time period and are expected to be converted to cash within 12 months from the balance sheet date are recorded as current assets; all other assets are recorded as non-current assets.

Liabilities that are incurred for the purpose of trading or are expected to be liquidated within 12 months after the balance sheet date are reflected as current liabilities; all other liabilities are reflected as non-current liabilities.

(f) Asset impairment

The Company assesses at each balance sheet date whether there is any indication that an asset may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount. The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(g) Cash equivalents

The Company considers all highly liquid investments, such as investments in bonds with repurchase agreements, with a maturity of three months or less to be cash equivalents.

(h) Financial instruments

1. Financial assets or liabilities measured at fair value

   Financial assets or liabilities measured at fair value are held with the intention of buying and selling them in a short period of time. Except for those that the Company holds for hedging purposes and are considered to be effective hedging instruments, financial derivatives are classified into this account.

2. Available-for-sale financial assets

   These are measured at fair value, and any changes, excluding impairment loss and unrealized foreign currency exchange gain or loss, are reported as a separate component of stockholders’ equity before gain or loss on financial instruments is realized. Realized gain or loss on financial instruments is charged to current operations. If there is objective evidence of impairment, an impairment loss is recognized in profit or loss. If, in a subsequent period, events or changes in circumstances indicate that the amount of impairment loss has decreased, the previously recognized impairment loss for equity securities is reversed to the extent of the decrease and recorded as an adjustment to equity, while for debt securities, the reversal is allowed through profit or loss provided that the decrease is clearly attributable to an event which occurs after the impairment loss is recognized.

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3. Financial assets carried at cost

Financial instruments whose fair values could not be measured with reasonable certainty are measured at their initial cost. However, if there is any objective evidence of impairment, a loss should be recognized thereon. Thereafter, the loss could not be reversed.

4. Notes receivable, accounts receivable, and other receivables

Notes and accounts receivable are the creditors' rights from selling goods or rendering services. Other receivables are created from non-operating income.

Effective January 1, 2012, for financial assets, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Impairment loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognized in profit or loss. The present value of estimated future cash flows includes the recoverable amount of collateral and insurance.

If, in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal shall not result in a carrying amount of financial assets that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

(i) Inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The allocation of fixed production overheads to the finished goods and work in progress is based on the normal capacity of the production facilities. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. Inventories are measured at the lower of cost or net realizable value on an individual item basis. The cost of inventories is based on the weighted-average-cost principle. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

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(j) Construction-in-progress and billings on construction-in-progress

Construction-in-progress and billings on construction-in-progress should be recognized by separate projects. Construction-in-progress includes actual cost and net income recognized under the percentage-of-completion method. Billings on construction-in-progress refers to accumulated advance construction payment. For individual projects, if the balance of the construction-in-progress account exceeds the balance of billings on construction-in-progress, then the billings on construction-in-progress account should be subtracted from the construction-in-progress account, and the balance should be reported as a current asset. On the other hand, if the balance in the billings on construction-in-progress account exceeds the balance of the construction-in-progress account, then the construction-in-progress account, when subtracted from the billings on construction-in-progress account, should be reported as a current liability.

(k) Long-term investments accounted for using equity method

Long-term investments in which the Company owns more than 20% of the investee companies' voting shares or owns less than 20% but has significant influence on the investee companies are accounted for by the equity method.

(l) Property, plant and equipment, lease assets, and depreciation

Property, plant and equipment are stated at cost. Costs associated with significant additions, improvements, and replacements to property, plant and equipment are capitalized. Repairs and maintenance are charged to expenses as incurred.

Depreciation of property, plant and equipment of the Company is provided for by using the straight-line method over the estimated useful lives of the respective assets. The useful lives of the main property, plant and equipment are as follows:

- Buildings: 20 to 49 years
- Other equipment: 3 to 10 years
- Lease assets: 5 to 37 years

At the end of each fiscal year, any changes in the remaining useful life, depreciation method, or salvage value are regarded as changes in accounting estimates.

In addition, gains or losses on the disposal of property, plant and equipment are accounted for as non-operating income or losses in the consolidated statement of operation.

(m) Intangible assets

Computer software is recorded at acquisition cost. Intangible asset costs are amortized using the straight-line method over the estimated useful lives of 1 to 10 years.

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The Company reviews the residual value, amortization method, and amortization period at least at the end of each fiscal year. Any changes are accounted for as changes in accounting estimates.

(n) Land use rights

The charges for land use rights are recorded at acquisition cost. Based on the shorter of the contract period or estimated benefit duration, the cost of land use rights is amortized using the straight-line method over a term of 50 years.

(o) Reserve for guarantee

Reserve for guarantee includes potential expense within the guarantee term. The reserve would be written off when actual expenses occur. If the reserve is not enough to be written off, the excess would be recorded as current expense.

(p) Pension plans

Acter and its ROC subsidiaries have established an employee non-contributory defined benefit retirement plan (“the Plan”) under the ROC Labor Standards Law (the “old system”) covering all regular employees. In accordance with the Plan, Acter and its ROC subsidiaries’ employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of retirement benefits are based on the years of service and the average salary for the six-month period before the employee’s retirement. Each employee earns two months of salary for the first fifteen years of service, and one month of salary for each year of service thereafter. The maximum retirement benefit is 45 months of salary. In accordance with the requirements of the ROC Labor Standards Law, Acter and its ROC subsidiaries have contributed monthly at the rate of 2% of salaries and wages to a pension fund.

For the Plan, Acter and its ROC subsidiaries carry out an actuarial calculation of their pension obligation at year-end. Based on the actuarial calculation, Acter and its ROC subsidiaries recognize a minimum pension liability and net periodic pension costs covering the service lives of the retirement plan participants, including current service cost, net obligation at transition, prior service cost, and pension gains or losses amortized on a straight-line basis.

Beginning July 2005, pursuant to the ROC Labor Pension Act (hereinafter referred to as the “New Act”), employees who elected to participate in the New Act or joined Acter and its ROC subsidiaries after July 1, 2005, are covered by a defined contribution plan under the New Act. For these employees, Acter and its ROC subsidiaries are required to make a monthly contribution at a rate no less than 6% of the employee’s monthly wages to the employee’s individual pension fund account at the ROC Bureau of Labor Insurance.

Under the new system, the Company contributes 6% of each employee’s monthly wages to the Bureau of Labor Insurance. The contribution for a period is recognized as pension cost for that period.

Certain of the Company’s foreign subsidiaries have set up retirement plans based on local government regulations. Contributions to these plans are expensed as incurred.

(Continued)

(q) Share-based payment

A capital increase by cash arising from the exercise of employee stock subscription rights commencing from January 1, 2008, is accounted for in accordance with ROC Accounting Research and Development Foundations (ARDF) Interpretation No. (96) 267 and Statement of Financial Accounting Standards (SFAS) No. 39. According to this Interpretation, compensation cost is calculated based on the option-pricing model on the grant date and is amortized over the vesting period. If the stock cannot be fairly evaluated before its public offering, the intrinsic value is used to recognize the compensation cost. The grant date is either the ex-rights date or the date of approval by the board of directors if approval from the board of directors is required.

(r) Construction revenue and construction income

For construction projects lasting longer than one year, when the construction profits can be reasonably estimated, the percentage-of-completion method is applied. Reasonably dependable estimates of construction profit occur when the following conditions are met:

1. Dependable estimates can be made of total accounts receivable.
2. Estimates for contract costs to be invested to complete the contract and the degree of its completion at the end of the period are reasonable dependable.
3. Costs belonging to the contract can be reasonably identified.

Under the percentage-of-completion method, contract profit for the current period is the difference between the cumulative profit based on the percentage of completion at the end of the current period and the cumulative profit recognized in prior periods. However, if the cumulative profit recognized in prior periods is greater than the cumulative profit calculated based on the percentage of completion at the end of the current period, the excess should be recorded as a loss in the current period. The percentage of completion is measured using the construction cost percentage method, under which the degree of completion is measured by the ratio of costs already incurred to an estimate of the total costs to complete the project. When there are changes in construction contract prices or estimates of total construction costs, such changes should be treated as changes in accounting estimates.

When the construction project is shorter than one year or the construction profits cannot be reasonably estimated, the completed-contract method is applied. The construction profits are recognized only when the contract is completed or substantially completed except for some miscellaneous work.

When the economic situation changes, a project can be changed from applying the completed-contract method to applying the percentage-of-completion method.

If a contract is estimated to bear a loss prior to completion, the full amount of the loss should be recognized immediately whether the completed-contract or percentage-of-completion method is adopted. However, if the loss is estimated to be smaller in future years, the difference should be reversed and recognized as a gain in that year.

(Continued)

(s) Revenue recognition

Sales revenue is recognized when title to the products and the risks and rewards of ownership are transferred to the customers, which occurs principally at the time of shipment. Sales of machinery and equipment are recognized as soon as the machinery and equipment are delivered and inspected and the related risk is transferred to the customers.

(t) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are determined based on differences between the financial statements and tax basis of assets and liabilities using the enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the asset will not be realized, a valuation allowance is recognized accordingly.

When a change in the income tax rate is enacted, the deferred tax liability or asset should be recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or assets, should be reported as an adjustment to income tax expense (benefit) for income from continuing operations.

Classification of the deferred income tax assets or liabilities as current or non-current is based on the classification of the related assets or liabilities. If the deferred income tax asset or liability is not directly related to a specific asset or liability, the classification is based on the expected realization period.

According to the ROC Income Tax Act, Acter and its ROC subsidiaries’ earnings are subject to an additional 10 percent corporate income surtax if not distributed. This surtax is charged to income tax expense in the following year when the shareholders decide not to distribute the earnings.

The income tax return of each consolidated entity is filed separately and is not consolidated with Acter’s tax filing. The Company’s income tax expense in the consolidated financial statements includes the accounts of Acter and its subsidiaries.

(u) Employees’ bonuses and remuneration paid to directors and supervisors

Effective January 1, 2008, in accordance with Interpretation No. (96) 052 issued by the ARDF, the Company estimates employees’ bonuses and remuneration of directors and supervisors and charges them to current operations, classified under cost of goods sold and operating expense, as appropriate. The difference between the amount approved by stockholders in the subsequent year and the amount estimated in the current-year financial statements is accounted for as changes in accounting estimates, and charged to profit or loss in the subsequent year.

(Continued)

(v) Earnings per common share ("EPS")

EPS are computed by dividing net income by the weighted-average number of common shares outstanding during the year. The incremental shares derived from issuance of stock dividend or capital surplus transferred to common stock is retroactively adjusted. Retroactive adjustment also applies if the record date for the capital increase is between the balance sheet date and issuance date of the financial statements.

Employee bonuses not been resolved by shareholders' meeting, and issued by stock, are considered as potential common stock. Only basic EPS is disclosed if potential common stock is not dilutive; otherwise, both the basic and dilutive EPS are disclosed simultaneously. In computing the diluted EPS, net income (loss) and the weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common stock, assuming all the potential common stock with dilution effect had been outstanding.

(w) Operating segment information

An operating segment is a component of an entity that has the following characteristics: (a) engaging in business activities from which it may earn revenues and incur expenses; (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available.

(3) Reasons for and Effect of Changes in Accounting Principles

Effective from January 1, 2011, the Company adopted the newly released SFAS No. 41 "Operating Segments". This statement requires identification and disclosure of operating segments on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. The Company discloses the operating segment information in the consolidated financial statements rather than in the individual financial statements. SFAS No. 41 supersedes SFAS No. 20 "Segment Reporting." The adoption of the newly released SFAS did not have any influence on the consolidated financial statements for the year ended December 31, 2011.

Effective from January 1, 2011, the Company adopted the newly revised SFAS No. 34 "Financial Instruments: Recognition and Measurement". The recognition, measurement, and impairment evaluation of receivables are subject to the newly revised SFAS. The adoption of the newly released SFAS did not have any influence on net income and basic earnings per share for the year ended December 31, 2011.

(Continued)

(4) Explanation of Significant Accounts

(a) Cash and cash equivalents

	December 31	
	2012	2011
Petty cash and cash on hand	$ 1,565	2,261
Checking and demand deposits	1,079,933	1,808,442
Time deposits	204,392	123,655
Cash equivalent – repurchased commercial paper	649,105	-
	$ 1,934,995	1,934,358

The repurchased commercial paper rate was 0.78%~0.83% on December 31, 2012, and the commercial paper matures from January 14 to March 14, 2013.

(b) Financial assets

	December 31	
	2012	2011
Available-for-sale – current		
Beneficiary securities – open-end funds	$ 248,842	82,143
Financial assets carried at cost – non-current		
Sunner Solar Corporation Co., Ltd.	$ 35,342	35,342
Taichung International Entertainment Co., Ltd.	45	45
	35,387	35,387
Less: accumulated impairment	(28,400)	-
	$ 6,987	35,387

The investments in stock did not have quoted prices in an active market, and their fair value could not be reliably measured. Thus, they were classified under financial assets carried at cost. Due to poor operation and the impairment of investment in Sunner Solar, the Company recognized impairment loss amounting to $28,400 during 2012.

Further, the Company has offered multiple asset-backed bonds for guarantee. These bonds amounted to $2,423 on December 31, 2011. Please refer to note 6.

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

(c) Notes and accounts receivable, net

	December 31	
	2012	**2011**
Notes receivable	$ 257,690	280,800
Accounts receivable	1,761,959	1,697,866
Less: allowance for doubtful accounts	(43,289)	(25,729)
	1,718,670	1,672,137
	$ 1,976,360	1,952,937

The notes and accounts receivable are not discounted or pledged.
Notes and accounts receivable maturing within one year are not discounted, so the book value is adopted as their fair value.

(d) Inventories

	December 31	
	2012	**2011**
Finished goods and merchandise	$ 441,390	433,980
Work in process and semi-finished goods	262,732	313,160
Raw materials	87,023	42,233
Less: provision for inventory devaluation	(223)	(123)
	86,800	42,110
	$ 790,922	789,250

In 2012, the Company decreased operating cost by $100 from the write-down of inventory cost to net realizable value. In 2011 the Company reversed allowance for inventory valuation loss and obsolescence amounting to $2,035 and recorded it as a deduction from cost of sales because net realizable value was no longer lower than cost after the disposal of obsolete inventories.

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

(e) Construction-in-progress and billings on construction-in-progress

1. For construction projects for which construction-in-progress is in excess of billings on construction-in-progress, the net amount is recorded as a current asset, as follows:

	2012.12.31	
Construction Project	Construction in progress	Billings on construction in progress
12XXXX0	$ 182,655	-
A0XXXX1	263,515	164,950
Others (net amount less than 5%)	3,422,803	2,693,236
	3,868,973	2,858,186
Less: billings on construction in progress	(2,858,186)	
Net amount	$ 1,010,787	

The net construction-in-progress mentioned above under the completed-contract method and percentage-of-completion method was $610,133 and $400,654, respectively.

	2011.12.31	
Construction Project	Construction in progress	Billings on construction in progress
70XX7	$ 406,686	338,411
11XXXX4	255,278	197,639
A0XXXX1	144,219	93,248
AXXX4	155,665	108,554
Other (net amount less than 5%)	2,774,421	2,209,341
	3,736,269	2,947,193
Less: billings on construction in progress	(2,947,193)	
Net amount	$ 789,076	

The net construction-in-progress mentioned above under the completed-contract method and percentage of completion method was $381,053 and $408,023, respectively.

(Continued)

2. For construction projects for which billings on construction-in-progress are in excess of construction-in-progress, the net amount is recorded as a current liability, as follows:

Construction Project		2012.12.31 Construction in progress	2012.12.31 Billings on construction in progress
12XXXX9	$	1,775	46,000
12XXXX1		33,370	62,282
Others (net amount less than 5%)		2,670,810	3,158,496
	$	2,705,955	3,266,778
Less: construction in progress			(2,705,955)
Net amount			560,823

The net billings on construction-in-progress mentioned above under the completed-contract method and percentage-of-completion method were $351,902 and $208,921, respectively.

Construction Project		2011.12.31 Construction in progress	2011.12.31 Billings on construction in progress
11XXXX4	$	18,270	84,240
11XXXX3		2,475	45,700
11XXXX1		21,658	47,600
Others (net amount less than 5%)		1,581,227	1,959,779
	$	1,623,630	2,137,319
Less: construction in progress			(1,623,630)
Net amount			513,689

The net billings on construction-in-progress mentioned above under the completed-contract method and percentage-of-completion method were $294,177 and $219,512, respectively.

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

3. Significant construction projects in progress (more than 20% of common stock) were as follows:

2012.12.31

Industry	Contract prices	Estimated total costs	Percentage of completion	Expected year of completion	Accumulated construction profit (loss)
Percentage-of-completion method:					
General	3,421,869	3,105,086	0~100	102~105	155,272
Semiconductor	1,896,522	1,922,796	7~83	102	(36,835)
Opto-electronic	861,687	828,051	76~96	102	30,481
Completed-contract method:					
General	237,992	213,774	12~46	102	-
Semiconductor	959,345	818,848	0~81	102	-
Opto-electronic	1,017,041	968,582	0~66	102	-
Other technology	1,544,390	1,297,423	0~100	102	-

2011.12.31

Industry	Contract prices	Estimated total costs	Percentage of completion	Expected year of completion	Accumulated construction profit (loss)
Percentage-of-completion method:					
General	2,751,822	2,521,617	0~100	101~103	91,818
Semiconductor	1,814,482	1,850,561	1~96	101~102	(52,378)
Opto-electronic	130,708	112,209	81	101	15,049
Other technology	904,962	709,437	3~93	101	70,217
Completed-contract method:					
General	653,654	618,307	0~81	101	-
Semiconductor	146,203	144,288	65	101	-
Opto-electronic	1,785,707	1,625,158	18~95	101	-
Other technology	843,262	696,552	1~83	101	(360)

(Continued)

(f) Investments accounted for using equity method

	2012.12.31			
	Percentage of ownership	**Accumulated investment cost**	**Book value**	**Loss on investment**
SCEC International (HK) Company Limited (SCEC)	46.03	$ 23,663	3,682	17,265

	2011.12.31			
	Percentage of ownership	**Accumulated investment cost**	**Book value**	**Loss on investment**
SCEC International (HK) Company Limited (SCEC)	45.00	$ 17,806	15,516	2,944
Leading Tek Corporation	32.26	10,000	65	-
		$ 27,806	15,581	2,944

The abovementioned long-term investments were not pledged.
In order to expand business in Mainland China, the Company started to invest in SCEC through Sheng Huei International Co., Ltd. in 2011. As of December 31, 2012, the Company had indirectly invested USD 803 in SCEC (Shanghai) through SCEC, with a shareholding ratio of 46.03%.

(g) Lease assets

	December 31	
	2012	**2011**
Cost:	$ 20,937	20,937
Land	12,561	12,561
Buildings	86	86
Equipment	33,584	33,584
	(2,034)	(1,689)
Less: depreciation	$ 31,550	31,895

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

The board of directors of Acter resolved in November 2006 to purchase the building on Chiang Kai-shek Road, Taichung, for self-use or lease purposes, and the lease began in 2007. As to December 31, 2012, the future receivable for the Company was as follows:

Term	Amount
2013.01.01~2014.10.19	$ 1,348

(h) Short-term borrowings

	December 31	
	2012	2011
Letter of credit borrowings	$ 93,069	90,969
Pledged borrowings	59,091	69,197
	$ 152,160	160,166
Unused facilities	$ 2,547,863	2,152,191
Range of interest rates	1%~2.4%	1%~7.544%

Please refer to note 6 for pledged assets information regarding the abovementioned pledged borrowings.

(i) Retirement plan

Acter and its ROC subsidiaries assess their retirement plans using the balance sheet date as the measurement date. The following table sets forth the funded status and accrued pension liability for the defined benefit plans:

	December 31	
	2012	2011
Benefit obligation:		
Non-vested benefit obligation	$ (24,239)	(21,939)
Accumulated benefit obligation	(24,239)	(21,939)
Projected future salary increases	(19,239)	(17,598)
Projected benefit obligation	(43,478)	(39,537)
Fair value of plan assets	10,368	8,440
Funded status	(33,110)	(31,097)
Unrecognized net obligation at transition	11,190	11,755
Unrecognized pension loss	21,257	18,685
Additional accrued pension liabilities	(12,872)	(12,877)
Accrued pension liability	(13,535)	(13,534)
Unrecognized transitional net benefit obligation from acquiring Nova Technology	(1,921)	(1,921)
Total accrued pension liability	$ (15,456)	(15,455)

(Continued)

The related accounts were as follows:

	December 31	
	2012	2011
Prepaid pension cost	$ 435	339
Accrued pension liability	(15,891)	(15,794)
	$ (15,456)	(15,455)

	December 31	
	2012	2011
Deferred pension cost	$ 10,702	9,662
Unrecognized pension costs	2,170	3,215
Additional accrued pension liabilities	$ 12,872	12,877

Actuarial assumptions are summarized as follows:

	December 31	
	2012	2011
Discount rate	1.75%	2.00%
Rate of increase in future compensation level	3.00%	3.00%
Expected long-term rate of return on plan assets	1.75%	2.00%

The components of net periodic pension cost are summarized as follows:

	2012	2011
Defined contribution plan:	$ 16,474	15,320
Defined benefit plan:		
Service cost	-	115
Interest cost	791	741
Actual return on pension fund	(90)	(141)
Amortization	1,143	1,041
Additional accrued pension expense	90	370
Net pension cost	1,934	2,126
	$ 18,408	17,446

(j) Income tax

Each consolidated entity files its own separate income tax return and cannot file as a consolidated entity. For the years ended December 31, 2012 and 2011, the statutory income tax rate applicable to Acter and its ROC subsidiaries is 17%. The tax rates for the other subsidiaries of Acter are based on the tax law of their jurisdiction.

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011, income tax expense was as follows:

		2012	2011
Current	$	208,881	221,338
Deferred		36,837	19,157
	$	245,718	240,495

The reconciliation of the expected income tax expense at the statutory tax rate and the actual income tax expense for the years ended December 31, 2012 and 2011, was as follows:

		For the years ended December 31 2012	2011
Income tax expense computed at the statutory tax rate	$	162,393	136,027
Difference due to local tax rates of subsidiaries		30,709	33,463
Gain on long-term investment in foreign subsidiaries		32,118	33,128
Tax effect of permanent differences		6,986	6,043
Additional 10% surtax on undistributed earnings		5,427	29,076
Change in valuation allowance		4,034	443
Effect of tax rate adjustment		-	(582)
Prior-year adjustment and others		4,051	2,897
Income tax expense	$	245,718	240,495

The temporary differences and tax credits, and their effects on deferred income tax assets (liabilities) were as follows:

		December 31			
		2012		2011	
		Amount	Income tax effect	Amount	Income tax effect
Deferred tax assets (liabilities) – current:					
Guarantee cost	$	51,062	9,976	51,808	10,236
Estimated construction loss		23,505	4,405	31,401	5,338
Loss carryforward		1,981	495	-	-
Unrealized decline in value of inventory		223	38	123	21
Allowance for doubtful accounts over the limit		16,829	4,207	8,208	2,052
Unrealized foreign exchange gains		1,664	274	(1,635)	(253)
Difference in accounting policy generated from construction income of foreign subsidiaries		111,658	27,915	61,759	15,440
Other temporary differences		16,562	4,122	62,534	14,652
			51,432		47,486
Less: Valuation allowance			(2,010)		(552)
		$	49,422		46,934

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

	December 31			
	2012		2011	
	Amount	Income tax effect	Amount	Income tax effect
Deferred tax assets (liabilities) –				
Non-current:				
Loss carryforwards	$ 13,063	2,220	-	-
Gain on overseas investment accounted for using equity method	(882,439)	(150,013)	(652,940)	(110,999)
Cumulative translation adjustments	(14,834)	(2,522)	(43,492)	(7,394)
Others	(44)	(18)	-	-
		(150,333)		(118,393)
Less: valuation allowance		(2,576)		-
		$ (152,909)		(118,393)
Total deferred tax assets		$ 53,652		47,739
Total deferred tax liabilities		(152,553)		(118,646)
Total valuation allowance		(4,586)		(552)
		$ (103,487)		(71,459)
Stated by consolidated entities				
Deferred tax assets – current		$ 52,710		47,594
Deferred tax liabilities – current		(3,288)		(660)
Deferred tax assets – non-current		4		-
Deferred tax liabilities – non-current		(152,913)		(118,393)
		$ (103,487)		(71,459)

The income tax returns of some of the consolidated entities located in the ROC including Acter, Hersuo, and Nova Technology have been examined by the tax authorities through year 2010.

The shareholders' imputation credit account, retained earnings, and imputation credit ratio were as follows:

	December 31	
	2012	2011
Unappropriated retained earnings:		
Beginning after January 1, 1998	$ 1,125,695	921,624
Imputation credit account balance	$ 104,664	101,008

	2012 (estimated)	2011 (actual)
Creditable ratio for earnings distribution to resident stockholders	14.84%	18.70%

(Continued)

(k) Stockholders' equity

1. Common stock and capital increase

Pursuant to a resolution by the board of the directors on September 20, 2011, Acter increased its common stock by issuing 4,600 thousand shares for cash at $86.5 per share. This capital increase was registered with the government authorities, and the record date for this capital increase was November 18, 2011.

As of December 31, 2012 and 2011, the authorized common stock was $720,000 and the issued common stock amounted to $461,359, with par value of $10 per share.

2. Capital surplus

According to the revised ROC Company Act, effective from January 2012, capital surplus shall be used to offset accumulated deficits before it can be used to increase common stock or distribute cash dividends. The aforementioned capital surplus includes premium from issuing stock and donations received. Pursuant to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the sum total of capital surplus capitalized per annum shall not exceed 10% of the issued capital.

3. Legal reserve

According to the revised ROC Company Act, 10 percent of the annual earnings after payment of income taxes due and offsetting accumulated deficits, if any, shall be allocated as legal reserve until the accumulated legal reserve equals the issued common stock. When a company incurs no loss, it may, pursuant to a resolution to be adopted by a stockholders' meeting, distribute its legal reserve to stockholders by issuing new shares or by cash, and only the portion of legal reserve which exceeds 25 percent of the issued capital may be distributed.

4. Special reserve

According to ROC SFB regulations, a publicly listed company should retain a special reserve equal to any contra account of deduction from stockholders' equity such as foreign currency translation adjustments before distribution of earnings. If the aforementioned deduction from stockholders' equity is reversed, the same amount could be removed from special reserve and transferred to unappropriated earnings.

5. Distribution of earnings and dividend policy

According to Acter's articles of incorporation, 10% of the annual earnings, after offsetting any accumulated deficit and payment of income taxes due, if any, shall be set aside as a legal reserve. In addition, a special reserve in accordance with applicable laws and regulations shall also be set aside. The remainder of such appropriation should be as follows:

(i) 2% or more as bonuses to employees. However, Acter may include employees of subsidiaries in profit sharing in the form of stock.

(ii) 3% or less as remuneration to directors and supervisors.

(iii) The remaining balance, excluding (i) and (ii), is partially reserved depending on the business environment, growth status, and long-term finance planning. After deducting the aforementioned partially reserve, the remaining balance plus any unappropriated earnings in previous years is used for distribution of stockholders' bonuses by the board of directors, depending on the capital status and economic development in the current year. Cash bonuses are not less than 10% of the total stockholders' bonuses, and they will be recommended by the board of directors and resolved in the stockholders' meeting.

Based on the abovementioned earnings distribution policy and taking into account the present operating conditions, the employee bonuses in the amount of $35,122 and $17,232 were accrued for 2012 and 2011, respectively; and remuneration to directors and supervisors in the amount of $17,242 and $14,428 was accrued for 2012 and 2011, respectively. If employee bonuses were paid in stock, the number of shares would be determined by dividing the total approved bonus amount by the closing market price of Acter's stock one day prior to the stockholders' resolution and considering the ex-dividend effect. However, if the aforementioned employee bonuses are modified by the stockholders' meeting in the following year, the adjustment will be treated as a change in accounting estimate and will be reflected in the statement of operations in the actual distribution year.

The actual distribution of employee bonuses and directors' and supervisors' remuneration for 2012 was subject to the proposal of the board of directors and a resolution of the stockholders' meeting. Relevant information would be available on the Market Observation Post System of the Taiwan Stock Exchange after the abovementioned meetings.

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

On June 18, 2012, and June 15, 2011, the stockholders' meeting of Acter approved the distribution of retained earnings proposed by the board of directors for 2011 and 2010, respectively. Information about dividends per share, employees' bonuses and directors' and supervisors' remuneration is as follows:

		2011	2010
Dividends per share (NTD):			
Cash	$	10.00	10.00
Employees' bonuses－cash	$	17,232	14,070
Directors' and supervisors' remuneration		14,428	19,248
	$	31,660	33,318

The above earnings distribution, which was charged to expense, had no difference from the resolution of Acter's board of directors and its accounting records.

(l) Earnings per common share ("EPS")

		For the years ended December 31,			
		2012		2011	
		Before Taxes	After Taxes	Before Taxes	After Taxes
Basic earnings per common share:					
Net income	$	955,251	709,533	800,159	559,664
Weighted-average common shares outstanding (thousand shares)		46,136	46,136	42,090	42,090
Basic earnings per common share (NTD)	$	20.71	15.38	19.01	13.30
Diluted earnings per common share:					
Net income	$	955,251	709,533	800,159	559,664
Weighted-average common shares outstanding (thousand shares)		46,136	46,136	42,090	42,090
Diluted weighted-average common shares outstanding (thousand shares)		353	353	237	237
		46,489	46,489	42,327	42,327
Diluted earnings per common share (NTD)－retroactively adjusted	$	20.55	15.26	18.90	13.22

The Company is a listed company on the OTC market. Thus, the number of dilutive shares due to employees' bonuses is calculated by the closing price of the shares at the balance sheet date and the day before the stockholders' resolution, including the ex-dividend and ex-rights effect.

(Continued)

(m) Financial instruments

1. As of December 31, 2012, the derivative financial instruments had matured. As of December 31, 2011, the Company's outstanding derivative financial instruments were as follows:

	December 31, 2011			
Item	**Contract amount (in JPY thousands)**	**Currency**	**Maturity**	**Book value**
Buy —forward foreign currency exchange contracts	40,000	Sell NTD/ Buy JPY	2012.01.17	106
Buy —forward foreign currency exchange contracts	21,000	Sell NTD/ Buy JPY	2012.01.26	(107)
				$ (1)

The Company signed forward foreign currency exchange contracts with banks. The contracts' purpose is to manage the exposure to foreign exchange rate risk resulting from operations. The transactions do not satisfy the conditions for applying hedge accounting, and are recorded as financial liabilities carried at fair value accordingly. Gain on sale of foreign currency exchange contracts was $42 for the year ended December 31, 2012; changes in fair value caused unrealized loss on financial assets of $1 for the year ended December 31, 2011.

2. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

(i) The fair value of financial instruments is the active market quoted price if it is available. If an active market quoted price is unavailable, the Company will determine the fair value based on an evaluation method, and the estimates and assumptions incorporated in such evaluation are consistent with those used by market participants in their pricing of financial instruments.

(ii) The fair value of the Company's non-derivative financial assets or liabilities with short maturities including notes and accounts receivable (including related parties), other receivables from related parties, other financial assets, restricted assets, refundable deposit, notes and accounts payable (including related parties) was estimated based on book value at the balance sheet date. The carrying amounts approximate their fair value due to the short maturities of these items.

(Continued)

(iii) It is not practicable to determine the fair values of financial assets carried at cost when these investments are not publicly traded. Refer to note 4(b) for details.

3. The fair values of the Company's financial assets and liabilities determined by publicly quoted market prices, if available, or determined using a valuation technique were as follows:

	December 31			
	2012		2011	
	Publicly quoted market price	**Fair value based on valuation technique**	**Publicly quoted market price**	**Fair value based on valuation technique**
Financial assets:				
Cash and cash equivalents	$ 1,934,995	-	1,934,358	-
Available-for-sale financial assets－current	248,842	-	82,143	-
Notes and accounts receivable (including related parties)	-	1,982,882	-	2,293,579
Other receivables from related parties	-	11,931	-	-
Other financial assets－current	-	84,799	-	123,742
Restricted assets	17,922	-	24,710	-
Refundable deposit	-	8,710	-	11,761
Financial liabilities:				
Short-term borrowings	-	152,160	-	160,166
Notes and accounts payable (including related parties)	-	2,247,956	-	2,269,729

4. Financial risk information

(i) Market risk

Beneficiary securities held by the Company are classified as available-for-sale financial assets. Such assets are measured at fair value, and the Company is exposed to market price volatility.

(ii) Credit risk

The Company's potential credit risk is derived primarily from cash, beneficiary securities, and accounts receivable. The Company maintains its cash in various creditworthy financial institutions and purchases commercial paper and beneficiary securities issued by companies with good credit ratings. Credit risk exposure to each financial institution and security issuer is controlled by the Company. As a result, the Company believes that there is no concentration of credit risk in cash and beneficiary securities.

(Continued)

As of December 31, 2012 and 2011, 28% and 48%, respectively, of the Company’s accounts receivable (including related parties) were from a group of seven customers. However, the Company evaluates the financial situation of those customers and requests a pledge or guarantee from them, if necessary. In addition, the Company performs an impairment evaluation regarding accounts receivable, and provides adequate reserves for bad debts. The management of the Company expects no significant loss will result from credit risk in the near future.

(iii) Liquidity risk

There is no liquidity risk of being unable to raise capital to settle contract obligations since the Company has sufficient capital and working capital to fulfill contract obligations. As there is no open market for the financial assets carried at cost, they are subject to liquidity risk.

(iv) Cash flow risk resulting from changes in interest rates

The financial assets of the Company with cash flow risk resulting from a change in interest rates were $1,153,047 and $1,913,658 as of December 31, 2012 and 2011, respectively. The financial liabilities of the Company with cash flow risk resulting from a change in interest rates were $152,160 and $160,166 as of December 31, 2012 and 2011, respectively.

(5) Related-party Transactions

(a) Name and relationship

Name of related party	Relationship with the consolidated companies
SCEC (Shanghai) Corporation	The Company’s investee under the equity method
Xiang-Hui Development Ltd. (Xiang-Hui) (note 1)	A corporate director of Acter
Johnwell Enterprise Co., Ltd. (Johnwell) (note 1)	The chairman of the company is the representative of a corporate director of Acter
Marketech International Corp. (Marketech) (note 2)	The chairman of Marketech is a director of Acter
Mic-Tech(Shanghai) Corp. Ltd. (Mic-Tech) (note2)	As above
Shanghai Ji-Wei Electronic System Ltd. (Ji-Wei) (note 2)	As above
Cheng-Zhong Investment Ltd. (Cheng-Zhong) (note 2)	The chairman of Cheng-Zhong is a first-degree blood relative of a director of Acter
Directors, supervisors, president and vice president	The Company’s key management team

(Continued)

Acter Co., Ltd. and Subsidiaries

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Note 1: From June 18, 2012, Xiang-Hui and Johnwell were not related parties of Acter since the directors were re-elected on that day. The Company only disclosed the transactions before June 18, 2012, between Xiang-Hui and Johnwell.

Note 2: Marketech, Mic-Tech, Ji-Wei and Cheng-Zhong were not recognized as related parties of the Company. The Company only disclosed the transactions with those entities in 2011.

(b) Significant transactions with related parties

1. Construction revenue, other operating revenue, and accounts receivable

(1) Construction revenue was as follows:

	2012		2011	
	Amount	**% of construction revenue**	**Amount**	**% of construction revenue**
Marketech	$ -	-	418,897	-

(2) Sales revenue was as follows:

	2012		2011	
	Amount	**% of sales revenue**	**Amount**	**% of sales revenue**
SCEC (Shanghai) Corporation	$ 6,522	-	-	-
Ji-Wei	-	-	5,260	-
Mic-Tech	-	-	764	-
	$ 6,522	-	6,024	-

(Continued)

Acter Co., Ltd. and Subsidiaries

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(3) Receivables from related parties generated from the abovementioned construction revenue and sales revenue were as follows:

	December 31			
	2012		2011	
Accounts receivable from related parties	**Amount**	**Percentage of notes and accounts receivable**	**Amount**	**Percentage of notes and accounts receivable**
Marketech	$ -	-	320,620	14
Ji-Wei	-	-	19,471	1
Mic-Tech	-	-	551	-
SCEC (Shanghai) Corporation	6,522	-	-	-
	$ 6,522	-	340,642	15

Construction-in-progress	2012.12.31	2011.12.31
Marketech	$ -	37,858

Billings on construction-in-progress	2012.12.31	2011.12.31
Marketech	$ -	63,875

Receivable and collection terms for the construction contracts with related parties are determined by the market strategy and present no significant difference from those with third-party customers.

(Continued)

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Notes to Consolidated Financial Statements

2. Construction cost, notes payable, and accounts payable

(1) Construction cost

		2012		2011	
		Amount	Percentage of construction cost	Amount	Percentage of construction cost
Marketech	$	-	-	9,900	-
Johnwell		-	-	1,096	-
Xiang-Hui		43	-	450	-
	$	43	-	11,446	-

(2) Payables resulting from the above transactions were as follows:

		December 31			
		2012		2011	
		Amount	Percentage of notes payable and accounts payable	Amount	Percentage of notes payable and accounts payable
Marketech	$	-	-	9,975	-
Johnwell		-	-	265	-
Xiang-Hui		-	-	32	-
	$	-	-	10,272	-

The purchase price and terms of payment for the construction contracts with related parties present no significant difference from those with third-party vendors.

3. Property transactions

In order to expand operating scale, the Company planned to purchase an operating office in Taipei. The Company purchased the land and building from Cheng-Zhong for $95,968 during 2011. As of December 31, 2011, all the payables generated from the abovementioned transaction had been settled. The prices of the land and the building were based on an evaluation report by experts.

(Continued)

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Notes to Consolidated Financial Statements

4. Rental revenue

   The Company had an office lease contract with SCEC (Shanghai) Corporation. The rental revenue is based on market price and square meters used. The rental revenue was $1,037 for the year ended December 31, 2012, and is recognized under other receivables from related parties.

5. Other expenses

   The Company paid related parties $0 and $114 for miscellaneous expenses and freight for the years ended December 31, 2012 and 2011, respectively. All of the payables had been settled at the end of the periods.

6. As of December 31, 2012, the Company, on behalf of SCEC (Shanghai) Corporation, had paid $10,894 recorded as other receivables from related parties.

7. Compensation to the key management team

   For the years ended December 31, 2012 and 2011, the compensation to the key management team of the Company, including all directors and supervisors, the president, and the vice president, was as follows:

	2012	2011
Salaries	$ 47,085	43,213
Compensation	13,294	15,194
Employees' bonuses	3,080	1,935

   The abovementioned amounts include the accruals for remuneration to directors and supervisors and for employees' bonuses please refer to the section "stockholders' equity" for further details.

(6) Pledged Assets

		Book value December 31	
Assets	**Purpose**	**2012**	**2011**
Restricted asset－current:			
Savings deposit / time deposit / Multiple asset-backed bonds for guarantee	Construction contract fulfillment and warranty guarantee	$ 17,922	23,988
Time deposit	Currency forward	-	722
		17,922	24,710
Land and building (including lease asset)	Short-term borrowing limit	72,880	77,384
		$ 90,802	102,094

(Continued)

Multiple asset-backed bonds for guarantee refers to the 3-year international bond issued by Deutsche Bank which, as of December 31, 2011 amounted to USD80 thousand, at a cost of $2,613, and had fair value of $2,423.

(7) Commitments and Contingencies

Significant commitments and contingencies of the Company for the years ended December 31, 2012 and 2011, were as follows:

(i) Fulfillment and warranty guarantee (excluding related parties) for engaging in construction contracts amounted to $360,627 and $409,043, respectively.

(ii) Bank pledges for engaging in construction contracts amounted to $179,129 and $184,754, respectively.

(iii) Contract fulfillment guarantees and warranty guarantees (excluding related parties) for other corporations amounted to $966,900 and $963,180, respectively.

(iv) Outstanding letters of credit were $41,939 and $130,111, respectively.

(v) For already-signed but not-yet-finished significant construction contracts, please refer to note 4(e).

(vi) The Company signed a construction contract with Walsin Technology Corporation (Walsin) in December, 2010. Walsin claimed that the Company did not perform the construction according to the contract, and therefore claimed compensation amounting to $42,189 at the Taipei District Court, while the Company presumed that the payment obligation did not exist.

The Company has appointed an attorney to handle the above dispute. Court proceedings had not yet begun as of the issuance date of the financial statements, and therefore the court's decision is still unknown.

(8) Casualty loss: None.

(9) Subsequent Events: None.

(10) Other Information

(a) Liquidity of assets and liabilities related to construction business was as follows:

	December 31, 2012		
	Expect to receive or pay within 12 months	Expect to receive or pay in over 12 months	Ending balance
Assets:			
Notes and accounts receivable	$ 1,922,711	53,649	1,976,360
Receivables from related parties	6,522	-	6,522
Refundable construction deposit (recorded as other financial assets – current)	51,080	-	51,080
Restricted assets – current	12,596	5,326	17,922
	$ 1,992,909	58,975	2,051,884
Liabilities:			
Notes and accounts receivable	$ 2,203,329	44,627	2,247,956

	December 31, 2011		
	Expect to receive or pay within 12 months	Expect to receive or pay in over 12 months	Ending balance
Assets:			
Notes and accounts receivable	$ 1,903,904	49,033	1,952,937
Receivables from related parties	340,642	-	340,642
Refundable construction deposit (recorded as other financial assets – current)	83,771	-	83,771
Restricted assets – current	19,298	4,690	23,988
	$ 2,347,615	53,723	2,401,338
Liabilities:			
Notes and accounts receivable	$ 2,179,001	80,456	2,259,457
Payables to related parties	10,272	-	10,272
	$ 2,189,273	80,456	2,269,729

(b) The Company's personnel expenses, depreciation, and amortization, by function for the years ended December 31, 2012 and 2011, are summarized as follows:

	2012			2011		
Account	**Operating costs**	**Operating expense**	**Total**	**Operating costs**	**Operating expense**	**Total**
Personnel expenses						
Salaries	390,183	210,297	600,480	359,537	168,567	528,104
Labor and health insurance	21,242	7,204	28,446	18,411	7,050	25,461
Social insurance	14,000	10,280	24,280	13,926	6,125	20,051
Pension	13,059	5,349	18,408	12,089	5,357	17,446
Other	11,773	12,280	24,053	9,859	11,760	21,619
Depreciation (note)	2,625	11,224	13,849	2,838	7,681	10,519
Amortization	995	5,205	6,200	293	2,958	3,251

Note: Depreciation for lease assets was $345 for the years ended December 31, 2012 and 2011, and was recorded in non-operating expense.

(c) The significant financial assets and liabilities in foreign currency were as follows (in thousands):

	2012			2011		
	Foreign currency	**Exchange rate**	**NTD**	**Foreign currency**	**Exchange rate**	**NTD**
Financial assets:						
Monetary items:						
USD	4,970	29.136	144,815	1,438	30.29	43,564
RMB	291,112	4.6741	1,360,685	310,863	4.81	1,496,028
SGD	2,013	23.8292	47,957	1,254	23.33	29,252
Financial liabilities:						
Monetary items:						
USD	6,236	29.136	181,691	-	-	-
RMB	184,510	4.6741	862,416	224,296	4.81	1,079,247
SGD	606	23.8292	14,429	-	-	-

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

(d) Disclosures on Adoption of International Financial Reporting Standards

1. According to Ruling No. 0990004943 issued by the Financial Supervisory Commission ("FSC", formerly named the Financial Supervisory Commission, Executive Yuan) on February 2, 2010, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare financial statements in accordance with International Financial Reporting Standards, International Accounting Standards, and the interpretations approved by the FSC. Due to the aforementioned ruling, the Company established a taskforce to monitor and execute the IFRS adoption plan. Mr. Hsu, the President, is responsible for the conversion plan. The important plan items, the expected completion date, and the plan progress are listed below:

Plan Contents	Responsible Department	Status
Phase 1 - Evaluation (2010.01.01 ~ 2011.12.31):		
◎ Establish adoption plan and form a special task force for IFRS conversion	Accounting Department	Completed
◎ Implement first-stage employee training program	Manpower Department	Completed
◎ Compare and analyze the differences between current accounting policies and IFRS	Accounting Department	Completed
◎ Evaluate proposed adjustments to current accounting policies	Accounting Department	Completed
◎ Evaluate the adoption of IFRS 1 - "First-time Adoption of IFRS"	Accounting Department	Completed
◎ Evaluate adjustments related to information systems and internal controls	Internal Control Department and IT Department	Completed
Phase 2 - Preparation (2011.01.01 ~ 2012.12.31):		
◎ Determine how to revise current accounting policies to comply with IFRS	Accounting Department	Completed
◎ Determine how to adopt IFRS 1 - "First-time Adoption of IFRS"	Accounting Department	Completed
◎ Adjust relevant information systems and internal controls	Internal Control Department and IT Department	Completed
◎ Implement second-stage employee training program	Manpower Department	Completed
Phase 3 - Implementation (2012.01.01 ~ 2013.12.31):		
◎ Test the operation of relevant information systems	IT Department	In Progress
◎ Collect information for preparation of Balance Sheet and Comparative Financial Statements in conformity with IFRS on the date of first-time adoption	Accounting Department	In Progress
◎ Prepare Financial Statements based on IFRS	Accounting Department	In Progress

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

2. The potential significant differences in preparing the financial statements between current accounting policies and IFRSs as of December 31, 2012, as evaluated by the Company are listed below:
   1) Reconciliation of balance sheet as of January 1, 2012

	ROC GAAP	Effect of transition to IFRSs	IFRSs
Current assets ((A), (B) and (I))	$ 6,230,789	278,730	6,509,519
Investments ((B), (E) and (H))	50,968	(12,669)	38,299
Property, plant and equipment	267,533	-	267,533
Intangible assets ((C) and (F))	57,098	(48,524)	8,574
Other assets ((B), (C), (D) and (F))	44,592	47,641	92,233
Total assets	**$ 6,650,980**	**265,178**	**6,916,158**
Current liabilities ((A), (B) and (E))	$ 4,034,822	86,315	4,121,137
Other liabilities ((B) and (F))	134,499	52,820	187,319
Total liabilities	4,169,321	139,135	4,308,456
Common stock	461,359	-	461,359
Capital surplus	896,599	-	896,599
Retained earnings ((A), (B), (E), (F) and (G))	1,093,972	170,084	1,264,056
Cumulative translation adjustments ((A), (B), (E)and (G))	34,606	(34,606)	-
Other stockholders' equity ((F) and (H))	(4,877)	(9,435)	(14,312)
Total stockholders' equity	2,481,659	126,043	2,607,702
Total liabilities and stockholders' equity	**$ 6,650,980**	**265,178**	**6,916,158**

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

2) Reconciliation of balance sheet as of December 31, 2012

		ROC GAAP	Effect of transition to IFRSs	IFRSs
Current assets ((A), (B) and (I))	$	6,467,289	(3,613)	6,463,676
Investments ((B), (E) and (H))		10,669	(62)	10,607
Property, plant and equipment		340,451	-	340,451
Intangible assets ((C) and (F))		56,717	(47,676)	9,041
Other assets ((B), (C), (D) and (F))		45,790	56,086	101,876
Total assets	**$**	**6,920,916**	**4,735**	**6,925,651**
Current liabilities ((A), (B) and (E))	$	4,038,198	(214,236)	3,823,962
Other liabilities ((B) and (F))		169,116	61,097	230,213
Total liabilities		4,207,314	(153,139)	4,054,175
Common stock		461,359	-	461,359
Capital surplus		896,599	-	896,599
Retained earnings ((K))		1,342,079	194,249	1,536,328
Cumulative translation adjustments ((A), (B), (E), and (G))		11,127	(38,545)	(27,418)
Other stockholders' equity ((F) and (H))		2,438	2,170	4,608
Total stockholders' equity		2,713,602	157,874	2,871,476
Total liabilities and stockholders' equity	**$**	**6,920,916**	**4,735**	**6,925,651**

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

3) Reconciliation of statement of operations for the year ended December 31, 2012

		ROC GAAP	Effect of transition to IFRSs	IFRSs
Sales revenues (A)	$	8,497,916	(149,982)	8,347,934
Cost of sales ((A), (B) and (F))		7,088,230	(175,796)	6,912,434
Gross profit		1,409,686	25,814	1,435,500
Operating expenses ((E) and (F))		427,953	(732)	427,221
Operating income		981,733	26,546	1,008,279
Nonoperating income and expenses ((B), (H) and (J))		(26,482)	(43)	(26,525)
Net income before income tax		955,251	26,503	981,754
Income tax expense (B)		245,718	(899)	244,819
Net income	$	709,533	27,402	736,935
Other comprehensive income:				
Foreign currency differences from the foreign operation financial statements		-	-	(27,418)
Unrealized valuation gains and losses on available-for- sale financial assets		-	-	6,270
Actuarial gains and (losses) arising from defined benefit plan		-	-	(3,238)
Comprehensive income	$	-	-	712,549

4) Explanation of the reconciliation

(A) Some of the Company's long-term construction contracts do not meet the criteria for adopting the percentage-of-completion method, and therefore adopt the completed-contract method. According to IFRSs, however, there is no completed-contract method, and revenues are recognized based on the extent of completion using the percentage-of-completion method. Thus, the Company's retained earnings are increased by $243,402 for the year ended January 1, 2012 (the construction-in-progress is increased by $251,895, and the cumulative translation adjustments are increased by $8,493). The construction-in-progress and billings on construction-in-progress are both increased by $74,429, which is separately presented in the financial statements after offsetting each other according to IFRSs.

(Continued)

The Company's construction revenue and cost are decreased by $149,982 and $176,228, respectively, resulting in an increase in operating profit of $24,246, with the adoption of IFRSs in 2012. For the year ended December 31, 2012, the cumulative effect of retained earnings amounted to $269,649 (the construction-in-progress is increased by $273,439, and the cumulative translation adjustments are increased by $3,791). The construction-in-progress and billings on construction-in-progress are both decreased by $49,098, which is separately presented in the financial statements after offsetting each other according to IFRSs.

(B) When the Company estimated the income tax expense, the tax effects of temporary differences were recognized as deferred income tax assets and liabilities. According to IFRSs, the above deferred income tax assets and liabilities shall be classified as non-current assets and non-current liabilities. The Company shall offset deferred tax assets and deferred tax liabilities if, and only if, the Company has a legally enforceable right to set off current tax assets against current tax liabilities and other related conditions are met. Thus, the Company reclassified the net deferred income tax assets – current and the net deferred income tax liabilities – current which were recognized in accordance with ROC GAAP as deferred income tax assets – non-current and deferred income tax liabilities – non-current, and they amounted to $47,594 and $660, respectively, as of January 1, 2012, and $52,710 and $3,288, respectively, as of and December 31, 2012. On the other hand, the estimated income tax expense is increased, resulting in a decrease in retained earnings of $72,182 (the deferred tax assets – non-current are increased by $9,117, the deferred tax liabilities – non-current are increased by $84,450, the cumulative translation adjustments are decreased by $3,144, and investments accounted for using the equity method are increased by $7).

The estimated income tax expense was decreased by $899 and investment gain recognized by the equity method is increased by $14 in 2012 with the adoption of IFRSs. For the year ended December 31, 2012, the cumulative effect of retained earnings amounted to $71,269 (the deferred tax assets– non-current are decreased by $19,550, the deferred tax liabilities– non-current are increased by $54,203, the cumulative translation adjustments are decreased by $2,463, and investments accounted for using the equity method are increased by $21).

(C) Regarding the land leasehold rights held under leases, the Company accounted for them as an operating lease. According to IFRSs, the payment to acquire the leasehold interest shall be accounted for as prepayments and amortized over the lease term. Thus, the Company reclassified the land leasehold rights which were recorded under intangible assets in accordance with ROC GAAP as prepaid long-term lease amounting to $38,862 and $36,974 as of January 1 and December 31, 2012, respectively.

(Continued)

(D) Parts of the Company's land and building are used for acquiring rental revenue or capital gain. Thus, the Company reclassified the land and building which were recognized as lease assets in accordance with ROC GAAP as investment properties, and they amounted to $31,895 and $31,550 as of January 1 and December 31, 2012, respectively. The book value of the investment properties is determined by the cost model according to IFRS 1 "First-Time Adoption of International Financial Reporting Standards" as of the transition date, January 1, 2012.

(E) The Company has a present legal or constructive obligation to record accumulated compensated absences as a result of the employees' past service. The Company recognized the expected cost of accumulated compensated absences as accrued liabilities. As of January 1, 2012, the Company revised the retained earnings by $12,407 (accrued compensated absences are increased by $12,546, investments accounted for using the equity method are decreased by $26, and the cumulative translation adjustments are decreased by $165).

The expected cost of accumulated compensated absences is recognized in salaries in the amount of $989 (recognized as operating costs of $647, operating expense of $285, and investment loss of $57) in 2012. For the year ended December 31, 2012, the cumulative effect of retained earnings amounted to $13,396 (accrued compensated absences are increased by $13,392, investments accounted for using the equity method are decreased by $83, and cumulative translation adjustments are decreased by $79).

(F) The Company has a defined benefit plan which measures the retirement benefit obligation using actuarial techniques. Originally, the actuarial gains or losses resulting from experience adjustments and changes in actuarial assumptions were amortized by the average remaining service period of employees and were recognized in profit or loss in accordance with ROC GAAP. The Company elected the exemption in accordance with IFRS 1 and recognized the actuarial gains or losses directly in retained earnings at the date of transition to IFRSs, and they amounted to $28,519 (the accrued pension liability is increased by $15,304, the prepaid pension cost is decreased by $338, the deferred pension cost is decreased by $9,662, and the net loss not recognized as pension cost is decreased by $3,215).

Due to the difference between the discount rate for actuarial assumptions under ROC GAAP and that under IFRSs, the pension expense is decreased by $1,231(recognized as operating cost of $214 and operating expense of $1,017) in 2012. For the year ended December 31, 2012, the cumulative effect of retained earnings amounted to $27,288 (the accrued pension liabilities are increased by $17,220, the prepaid pension cost is decreased by $434, the deferred pension cost is decreased by $10,702, the net loss not recognized as pension cost is decreased by $2,170, and the actuarial loss of the defined benefit plan amounted to $3,238). The actuarial loss of the defined benefit plan is recognized as other comprehensive income.

(Continued)

(G) The Company elected to use the exemption for cumulative translation differences, which arise from translating the foreign operations' financial statements into the presentation currency, in accordance with IFRS 1 at the date of transition to IFRSs. The cumulative translation differences which complied with ROC GAAP were deemed to be zero, and were recognized directly in retained earnings amounting to $39,790. According to Ruling No. 1010012865 issued by the Financial Supervisory Commission at April 6, 2012, cumulative translation recorded in retained earnings due to the exemption under IFRS 1 will also be recorded in special reserve in the same amount as in retained earnings.

For the year ended December 31, 2012, the effect on cumulative translation amounted to $38,545.

(H) The emerging stock held by the Company recognized as financial assets carried at cost－non-current in accordance with ROC GAAP is currently reclassified as available-for-sale financial assets－non-current in accordance with IFRSs, and fair value is chosen to be its original cost. The Company classifies the invested emerging stock as having an inactive market, and adopted another valuation model to determine its fair value. The book value and fair value of the available-for-sale financial assets－non-current amounted to $35,342 and $22,692, as of January 1, 2012, respectively, and unrealized loss on financial instruments amounted to $12,650.

The aforementioned stock investment has incurred an impairment loss amounting to $28,400 in accordance with ROC GAAP, and its book value amounted to $6,942. The fair value determined by another valuation model also amounted to $6,942, and the impairment loss amounted to $28,400 in accordance with IFRSs.

(I) The Company's savings deposit, time deposit and multi asset-backed bonds for guarantee are pledged for construction contract fulfillment and warranty guarantee, recognized as restricted assets－current amounting to $24,710. The restricted assets will be reclassified to the original account in the financial statements based on their accounting nature at the date of transition to IFRSs, with a disclosure of the pledged nature in the notes to the financial statements. The savings account amounted to $22,287, and financial assets carried at amortized cost－current amounted to $2,423.

Part of Company's savings deposit and time deposit are pledged for construction contract fulfillment and warranty guarantee, recognized as restricted assets－current amounting to $17,922 in the financial statements at the date of transition to IFRSs, with a disclosure of the pledged nature in the notes to the financial statements.

(J) The Company's investment loss recognized by the equity method is increased by $43 due to the adoption of IFRSs by the investees under the equity method.

(K) The effect on the Company's retained earnings due to the difference between IFRSs and ROC GAAP amounted to $197,486 for the year ended December 31, 2012. The effect on retained earnings at the date of transition to IFRSs amounted to $170,084. The effect on

(Continued)

net income amounted to $27,402 due to the adoption of IFRSs. Please refer to the above paragraphs for the details.

3. According to IFRS 1, except for the optional exemptions and mandatory exemptions, the Company should adopt the accounting policies which are effective at the date of first-time adoption of IFRSs to prepare financial statements and retroactively adjust the differences between IFRSs and the previous GAAP upon first-time adoption of IFRSs. The optional exemptions which were elected by the Company are as follows:
   1) The fair value of the investment properties according to Ruling No. 1000032208 issued by the Financial Supervisory Commission is deemed to be the original cost at the date of transition to IFRSs.
   2) Business combinations and acquisition of subsidiaries before December 31, 2011 are exempt from retroactive adjustment.
   3) The Company elected to use the exemption for cumulative translation differences which arise from translating the foreign operations' financial statements into the presentation currency. The cumulative translation differences in accordance with ROC GAAP were deemed to be zero at the date of transition to IFRSs, and were recognized directly in retained earnings.
   4) The defined benefit pension plan's retirement benefit obligations are measured using actuarial techniques. If the actuarial gains or losses arise from both experience adjustments and changes in actuarial assumptions, the Company elected not to retroactively adjust. Such actuarial gains or losses were immediately recognized in equity at the date of transition to IFRSs.

4. The aforementioned assessment is based on IFRSs and interpretations endorsed by the Financial Supervisory Commission. However, the assessment result, the amount, and the accounting policies selected under IFRS 1- "First-time Adoption of International Financial Reporting Standards" may be impacted by the addition or amendment of IFRSs issued or proposed by the International Accounting Standards Board and the possible future rules issued by the FSC.

(e) Reclassifications

Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2011, were reclassified to conform to the presentation in the consolidated financial statements as of and for the year ended December 31, 2012. Such reclassifications have no significant effect on the 2011 consolidated financial statements.

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

(11) Segment Information

(a) General information and industrial information

There are three segments that need to be reported: Taiwan, Mainland China, and other Asian countries. The Taiwan segment provides engineering, maintenance, sales and other services in the Taiwan area. The Mainland China segment provides engineering services in Mainland China. The other Asian segment provides engineering services in Vietnam, Singapore, Malaysia and other Asian countries.

The reported segments are strategic business units and render products and services in different areas. Since each strategic business unit is located in a different environment, they require different administration strategies and are managed separately. Most of the business units were founded by the Company, and the management teams have been cultivated by the Company as well.

The Company has allocated unusual income (loss) and tax expense (profit) to the reportable segments. The net income for the reported segments includes significant non-cash items exclusive of depreciation and amortization. The reported amounts are in accordance with the report used by the decision maker of the operation. The accounting policies used by the operating segments are the same as in note 2. The performance of the segments is evaluated by operating income and net income.

(b) Segment information

Information on, and adjustments for, the segments are as follows:

	For the year ended December 31, 2012				
	Taiwan	Mainland China	Other Asian	Adjustments and eliminations	Total
Sales to external customers	$ 4,689,472	3,532,340	276,104	-	8,497,916
Sales among segments	486,153	50,893	199	(537,245)	-
Total income	$ 5,175,625	3,583,233	276,303	(537,425)	8,497,916
Segment profit	$ 461,127	230,745	17,661	-	709,533
Depreciation and amortization	$ 9,421	9,794	1,179	-	20,394
Segment assets	$ 3,934,410	3,049,841	210,021	(277,038)	6,917,234
Long-term investments under equity method					3,682
Total assets					6,920,916

(Continued)

Acter Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

	For the year ended December 31, 2011				
	Taiwan	Mainland China	Other Asian	Adjustments and eliminations	Total
Sales to external customers	$ 5,098,093	3,319,784	119,701	-	8,537,578
Sales among segments	81,887	200,180	478	(282,545)	-
Total income	**$ 5,179,980**	**3,519,964**	**120,179**	**(282,545)**	**8,537,578**
Segment profit (loss)	**$ 316,774**	**249,301**	**(6,411)**	**-**	**559,664**
Depreciation and amortization	**$ 5,114**	**8,143**	**858**	**-**	**14,115**
Segment assets	**$ 3,768,023**	**2,842,497**	**239,684**	**(214,805)**	**6,635,399**
Long-term investments under equity method					15,581
Total assets					**6,650,980**

(c) Overall information

1. Information by products and services

   Sales to external customers were as follows:

	December 31	
	2012	2011
Electronic and mechanical construction services	$ 854,032	679,425
Clean room construction	4,923,063	5,345,561
Gas and chemical supply system engineering	1,058,779	1,188,185
Others	1,662,042	1,324,407
	$ 8,497,916	**8,537,578**

(Continued)

2. Geographical information

Information by location for the Company is as follows, within which revenue is classified based on the location of the customer, and non-current assets are classified based on the location of the assets.

i. Sales to external customers:

Area	December 31 2012	December 31 2011
Taiwan	$ 4,689,472	5,098,093
Mainland China	3,532,340	3,319,784
Other countries	276,104	119,701
	$ 8,497,916	**8,537,578**

ii. Non-current assets:

Area	December 31 2012	December 31 2011
Taiwan	$ 276,266	274,804
Mainland China	144,051	70,491
Other countries	3,225	2,505
	$ 423,542	**347,800**

3 Information on significant customers

Major customers representing at least 10% of net sales:

	December 31 2012	December 31 2011
A customer	$ 1,040,203	30,673
B customer (including subsidiaries)	270,267	604,416
	1,310,470	**635,089**