Stock Code:5536

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

ACTER CO., LTD. AND ITS SUBSIDIARIES

Consolidated Financial Statements

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

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Table of contents

Representation Letter

The entities that are required to be included in the combined financial statements of Acter Co., Ltd. as of and for the year ended December 31, 2017 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Acter Co., Ltd. and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Acter Co., Ltd.
Chairman: Mr. Liang
Date: February 23, 2018

Independent Auditors' Report

To the Board of Directors of Acter Co., Ltd.:

Opinion

We have audited the consolidated financial statements of Acter Co., Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.We have determined the matters described below to be the key audit matters to be communicated in our report.

1.Revenue recognition

Refer to Note 4(q) "Revenue", Note 5(a) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty: Revenue recognition" and Note 6(d) "Construction contracts" to the consolidated financial statements.

Description of key audit matter

The Group assesses construction revenue by measuring the proportion that the contract costs incurred for work performed to date bear to the estimated total contract costs; the estimated total contract cost involves judgment and estimation uncertainty of the Group's management. Consequently, revenue recognition is one of the key matters for our audit.

How the matter was addressed in our audit

Our principal audit procedures included: testing the Group’s internal control of sales and receipt cycle to assess whether there is any defects and irregularities of internal control systems; reviewing major contracts to understand the specific terms and risks of contracts; comparing actual construction costs incurred with estimated construction costs to evaluate rationality of the estimation method; assessing whether the Group’s accounting policy of revenue recognition is in accordance with related accounting standards.

2.Assessment of impairment of receivables

Refer to Note 4(g) “Financial instruments”, Note 5(b) “Significant accounting assumptions and judgments, and major sources of estimation uncertainty: Impairment of receivables” and Note 6(c) “The net of notes and accounts receivable and other receivables” to the consolidated financial statements.

Description of key audit matter

The recoverable of the Group’s receivables is closely related to business cycle and customers’ operating situation. The Group’s management estimate impairment for receivables by assessing each customers' financial status and historical collection record. Impairment of receivables involves judgment and estimation uncertainty of the Group’s management. Consequently, impairment of receivables is one of the key matters for our audit.

How the matter was addressed in our audit

Our principal audit procedures included: testing related internal control of account receivable; reviewing collection of notes and accounts receivable during the subsequent period; evaluating the Group’s assumption of impairment by performing receivables aging analysis and reviewing historical collection record, comparing the allowance for impairment and actual unrecoverable receivables to assess the adequacy of allowance for impairment assessing whether the impairment is fairly presented.

3.Provisions

Refer to Note 4(p) “Provisions”, Note 5(c) “Significant accounting assumptions and judgments, and major sources of estimation uncertainty: Recognition and measurement of provisions”, Note 6(k) “Provisions”and Note 9(f) “Significant commitments and contingencies” to the consolidated financial statements.

Description of key audit matter

The Group estimates the future probability of warranty occurrence based on historical experience. For the construction lawsuit which is still in trial, the Group also makes provisions for construction loss. Provisions of warranty involves judgment and estimation uncertainty of the Group’s management. Consequently, provisions of warranty is one of the key matters for our audit.

How the matter was addressed in our audit

Our principal audit procedures included: comparing actual warranty expenses and provisions of warranty to assess the accuracy of estimation; considering the management’s methods and data sources of estimating provisions and evaluating the possibility to change accounting estimates; assessing whether the provision is fairly presented and in accordance with related accounting standards; if the lawsuit of constructions is still in trial, the recoverable costs might depend on the result of the pending litigation, we will assess the provisions of construction loss in accordance with related recognition conditions.

Other Matter

Acter Co., Ltd. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2017 and 2016, on which we have issued an unmodified opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Tzu-Hsin Chang and Hai-Ning Huang.

KPMG

Taipei, Taiwan (Republic of China)
February 23, 2018

Notes to Readers

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

The auditors' report and the accompanying consolidated 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 consolidated financial statements, the Chinese version shall prevail.

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

ACTER CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2017 Amount	%	December 31, 2016 Amount	%
	Current assets:				
1100	Cash and cash equivalents (note 6(a)and(u))	$ 3,926,890	34	2,553,478	29
1125	Available-for-sale financial assets (note 6(b)and(u))	198,460	2	202,046	2
1150	Notes receivable, net (note 6(c)and(u))	156,038	1	95,956	1
1170	Accounts receivable, net (note 6(c)and(u))	2,409,665	21	2,350,980	27
1190	Construction contracts receivable (note 6(d))	1,543,171	13	904,016	10
1200	Other receivables (note 6(c)and(u))	110,562	1	30,082	-
1220	Current income tax assets	3,546	-	5,008	-
1310	Inventories, net (note 6(e))	1,653,559	14	1,193,997	13
1476	Other current financial assets (note 8)	222,630	2	167,513	2
1479	Other current assets	461,630	4	503,803	6
		10,686,151	92	8,006,879	90
	Non-current assets:				
1523	Non-current available-for-sale financial assets, net (note 6(b))	4,050	-	3,960	-
1550	Investments accounted for using equity method (note 6(f))	796	-	877	-
1600	Property, plant and equipment (note 6(i))	401,971	4	374,530	4
1760	Investment property, net (note 6(j))	245,741	2	248,228	3
1840	Deferred tax assets (note 6(s))	142,511	2	184,886	2
1985	Long-term prepaid rents	34,590	-	35,910	1
1990	Other non-current assets (note 6(b))	37,961	-	28,793	-
		867,620	8	877,184	10
	Total assets	**$ 11,553,771**	**100**	**8,884,063**	**100**

	Liabilities and Equity	December 31, 2017 Amount	%	December 31, 2016 Amount	%
	Current liabilities:				
2100	Short-term borrowings (note 6(l)and(u))	$ 344,806	3	193,680	2
2150	Notes payable (note 6(u))	220,246	2	235,806	3
2170	Accounts payable (note 6(u))	2,627,433	23	2,084,077	23
2180	Accounts payable to related parties (note 6(u)and 7(b))	381	-	118	-
2190	Construction contracts payable (note 6(d))	764,337	6	1,028,078	12
2201	Accrued salaries and bonuses	254,228	2	213,790	2
2230	Current income tax liabilities	108,630	1	66,075	1
2250	Current provisions (note 6(k))	335,595	3	235,573	3
2311	Advance sales receipts (note 6(m))	1,706,250	15	1,055,346	12
2399	Other current liabilities and accrued expenses (note 9)	240,244	2	177,028	2
		6,602,150	57	5,289,571	60
	Non-Current liabilities:				
2570	Deferred tax liabilities (note 6(s))	241,328	2	173,142	2
2640	Non-current provisions for employee benefits (note 6(n))	45,458	-	40,400	-
2645	Guarantee deposits received	314	-	314	-
		287,100	2	213,856	2
	Total liabilities	6,889,250	59	5,503,427	62
	Equity attributable to owners of parent (notes 6 (o)):				
3100	Ordinary shares	471,529	4	472,369	5
3200	Capital surplus	1,412,098	12	1,071,656	12
3300	Retained earnings	2,057,315	18	1,597,951	18
3400	Other equity interest	(66,649)	-	(78,851)	(1)
	Total equity attributable to owners of parent	3,874,293	34	3,063,125	34
36XX	Non-controlling interests (note 6(g)and (h))	790,228	7	317,511	4
	Total equity	4,664,521	41	3,380,636	38
	Total liabilities and equity	**$ 11,553,771**	**100**	**8,884,063**	**100**

See accompanying notes to consolidated financial statements.

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

ACTER CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

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

		2017 Amount	2017 %	2016 Amount	2016 %
	Operating Revenues:				
4521	Construction revenue (note 6(d))	$ 9,215,041	80	6,855,632	81
4529	Less: allowances	(8,717)	-	(69,092)	(1)
		9,206,324	80	6,786,540	80
4110	Sales	2,165,081	19	1,555,421	19
4800	Other operating revenue	66,277	1	62,460	1
		11,437,682	100	8,404,421	100
	Operating costs:				
5520	Construction cost (note 6(d) and 7(2))	7,791,620	68	5,928,771	71
5110	Cost of goods sold (note 6(e))	1,590,693	14	1,161,499	14
5800	Other operating costs	11,500	-	4,079	-
		9,393,813	82	7,094,349	85
	Gross profit from operations	2,043,869	18	1,310,072	15
	Operating expenses:				
6100	Selling expenses	95,744	1	101,949	1
6200	Administrative expenses (note 6(c))	478,905	4	530,091	6
6300	Research and development expenses	92,488	1	76,779	1
		667,137	6	708,819	8
	Net operating income	1,376,732	12	601,253	7
	Non-operating income and expenses:				
7050	Finance costs	(9,469)	-	(3,253)	-
7010	Other income (note 6(q))	11,076	-	22,559	-
7070	Share of loss of associates accounted for using equity method (note 6(f))	(8)	-	(234)	-
7020	Other gains and losses, net (note 6(q))	(86,778)	(1)	(24,671)	-
		(85,179)	(1)	(5,599)	-
7900	**Profit before income tax**	1,291,553	11	595,654	7
7950	**Less: Income tax expense (note 6(s))**	309,413	3	141,792	2
	Profit	**982,140**	**8**	**453,862**	**5**
8300	**Other comprehensive income (loss) :**				
8310	**Items that will not be reclassified subsequently to profit or loss** (note 6(n))				
8311	Remeasurements effects on defined benefit plans	(6,382)	-	(6,043)	-
8360	**Items that may be reclassified subsequently to profit or loss**				
8361	Exchange differences on translation of foreign operations	(18,549)	-	(118,193)	(1)
8362	Net change in fair value of available-for-sale financial assets	1,936	-	8,685	-
8399	Less: income tax relating to components of other comprehensive income that may be reclassified subsequently to profit or loss (note 6(s))	3,452	-	19,812	-
		(13,161)	-	(89,696)	(1)
8300	**Other comprehensive income, net of tax**	(19,543)	-	(95,739)	(1)
8500	**Total comprehensive income**	**$ 962,597**	**8**	**358,123**	**4**
	Profit, attributable to:				
8610	Owners of parent	$ 842,154	7	436,276	5
8620	Non-controlling interests	139,986	1	17,586	-
		$ 982,140	**8**	**453,862**	**5**
	Comprehensive income attributable to:				
8710	Owners of parent	$ 824,751	7	342,190	4
8720	Non-controlling interests	137,846	1	15,933	-
		$ 962,597	**8**	**358,123**	**4**
9750	**Basic earnings per share(In new Taiwan dollars) (note 6(t))**	**$**	**18.17**		**9.45**
9850	**Diluted earnings per share(In new Taiwan dollars) (note 6(t))**	**$**	**17.67**		**9.24**

See accompanying notes to consolidated financial statements.

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

ACTER CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent											
			Retained earnings				other equity interest					
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign operations	Unrealized gains (losses) on available-for-sale financial assets	Others	Total other equity interest	Non-controlling interests	Total equity
Balance at January 1, 2016	$ 466,159	978,475	343,459	36,888	1,071,386	1,451,733	58,573	(14,583)	(20,845)	23,145	144,305	3,063,817
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	41,635	-	(41,635)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(284,015)	(284,015)	-	-	-	-	-	(284,015)
	466,159	978,475	385,094	36,888	745,736	1,167,718	58,573	(14,583)	(20,845)	23,145	144,305	2,779,802
Changes in ownership interest in subsidiaries	-	19,419	-	-	-	-	-	-	-	-	-	19,419
Difference between consideration and carrying amount of subsidiaries acquired or disposed of	-	30,382	-	-	-	-	-	-	-	-	-	30,382
Share-based payment	6,210	43,380	-	-	-	-	-	-	(13,953)	(13,953)	-	35,637
	472,369	1,071,656	385,094	36,888	745,736	1,167,718	58,573	(14,583)	(34,798)	9,192	144,305	2,865,240
Profit for the year ended December 31, 2016	-	-	-	-	436,276	436,276	-	-	-	-	17,586	453,862
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	(6,043)	(6,043)	(96,728)	8,685	-	(88,043)	(1,653)	(95,739)
Total comprehensive income	-	-	-	-	430,233	430,233	(96,728)	8,685	-	(88,043)	15,933	358,123
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	157,273	157,273
Balance at December 31, 2016	**$ 472,369**	**1,071,656**	**385,094**	**36,888**	**1,175,969**	**1,597,951**	**(38,155)**	**(5,898)**	**(34,798)**	**(78,851)**	**317,511**	**3,380,636**
Balance at January 1,2017	**$ 472,369**	**1,071,656**	**385,094**	**36,888**	**1,175,969**	**1,597,951**	**(38,155)**	**(5,898)**	**(34,798)**	**(78,851)**	**317,511**	**3,380,636**
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	43,628	-	(43,628)	-	-	-	-	-	-	-
Special reserve	-	-	-	7,164	(7,164)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(377,895)	(377,895)	-	-	-	-	-	(377,895)
	472,369	1,071,656	428,722	44,052	747,282	1,220,056	(38,155)	(5,898)	(34,798)	(78,851)	317,511	3,002,741
Changes in ownership interest in subsidiaries	-	304,711	-	-	-	-	-	-	-	-	-	304,711
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	41,716	-	-	-	-	-	-	-	-	-	41,716
Share-based payment	(840)	(5,985)	-	-	-	-	-	-	24,710	24,710	-	17,885
	471,529	1,412,098	428,722	44,052	747,282	1,220,056	(38,155)	(5,898)	(10,088)	(54,141)	317,511	3,367,053
Profit for the year ended December 31, 2016	-	-	-	-	842,154	842,154	-	-	-	-	139,986	982,140
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	(4,895)	(4,895)	(14,444)	1,936	-	(12,508)	(2,140)	(19,543)
Total comprehensive income	-	-	-	-	837,259	837,259	(14,444)	1,936	-	(12,508)	137,846	962,597
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	334,871	334,871
Balance at December 31, 2017	**$ 471,529**	**1,412,098**	**428,722**	**44,052**	**1,584,541**	**2,057,315**	**(52,599)**	**(3,962)**	**(10,088)**	**(66,649)**	**790,228**	**4,664,521**

See accompanying notes to consolidated financial statements.

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

ACTER CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from operating activities:		
Profit before tax	$ 1,291,553	595,654
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense (including investment property)	22,435	21,595
Amortization expense	6,162	6,837
Provision for (reversal of) bad debt expense	(3,630)	109,767
Compensation cost arising from employee stock options	17,885	35,637
Loss (gain) on disposal of investments	(1,975)	15,269
Share of loss of associates accounted for using equity method	8	234
Others	(3,208)	3,695
Total adjustments to reconcile profit	37,677	193,034
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease (increase) in notes receivable	(60,082)	149,926
Increase in accounts receivable	(50,482)	(37,181)
Decrease (increase) in construction contracts receivable	(639,155)	515,864
Increase in inventories	(461,878)	(52,117)
Increase in other current assets	(52,118)	(232,406)
	(1,263,715)	344,086
Changes in operating liabilities:		
Decrease in notes payable	(15,560)	(33,192)
Increase (decrease) in accounts payable	543,356	(262,518)
Increase (decrease) in construction contracts payable	(263,741)	488,110
Increase in provisions	100,228	52,474
Increase in advance sales receipts	650,904	80,336
Increase in other current liabilities	136,465	3,403
	1,151,652	328,613
Total adjustments	(74,386)	865,733
Cash inflow generated from operations	1,217,167	1,461,387
Interest received	17,196	9,476
Interest paid	(6,854)	(3,453)
Income taxes paid	(157,110)	(165,644)
Net cash flows from operating activities	1,070,399	1,301,766
Cash flows from (used in) investing activities:		
Acquisition of available-for-sale financial assets	(234,000)	(156,174)
Proceeds from disposal of available-for-sale financial assets	238,023	172,405
Acquisition of property, plant and equipment	(49,704)	(28,468)
Proceeds from disposal of property, plant and equipment	390	3,362
Acquisition of investment property	-	(116,729)
Decrease (increase) in other non-current assets	(15,706)	13,621
Net cash flows used in investing activities	(60,997)	(111,983)
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	598,018	242,537
Decrease in short-term borrowings	(433,833)	(232,714)
Cash dividends paid	(377,895)	(284,015)
Change in non-controlling interests	607,318	242,074
Net cash flows from (used in) financing activities	393,608	(32,118)
Effect of exchange rate changes on cash and cash equivalents	(29,598)	(99,410)
Net increase in cash and cash equivalents	1,373,412	1,058,255
Cash and cash equivalents at beginning of period	2,553,478	1,495,223
Cash and cash equivalents at end of period	**$ 3,926,890**	**2,553,478**

See accompanying notes to consolidated financial statements.

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

(1) Company history

ACTER CO., LTD. (the "Company") was incorporated on February 19, 1979, under the approval of the Ministry of Economic Affairs, R.O.C. The Company's registered office address is located at 19F-1, No.201, Sec.2, Wenxin Road, Xitun District., Taichung City 40758, Taiwan (R.O.C.).The consolidated financial statements of the Company as of and for the year ended December 31, 2017 comprised the Company and its subsidiaries (together referred to as the "Group"). The Company is engaged in providing construction, design, and maintenance services related to air conditioners, environmental control services, clean room set-up, ice water machine trading, energy storing equipment trading, ventilation engineering, and energy technology services. The principal operating activities of the rest of the Group entities are described in Notes 4 (3). Acter's common shares were publicly listed on the Taipei Exchange ("TPEx") on November 10, 2010.

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

The consolidated financial statements for the years ended December 31, 2017 and 2016 was assented to the audit committee over half of all members and authorized for issuance by the Board of Directors on February 23, 2018.

(3) New standards, amendments and interpretations adopted:

(a) Impact of adopting the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC").

The Group has prepared its consolidated financial statements in conformity with the new standards, interpretations and amendments of IFRSs which have been endorsed by the FSC and are effective for annual period beginning on or after January 1, 2017 as follows:

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

(Continued)

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 36 " Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 " Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Group assessed that the initial application of the above IFRSs would not have any material impact on the consolidated financial statements.

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

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

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

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

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) IFRS 9 "Financial Instruments"

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

(1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, investments in debt securities and investments in equity securities that are managed on a fair value basis. At December 31, 2017, the Group had equity investments classified as available-for-sale with a fair value of 202,510 thousand that are held for long-term strategic purposes. At initial application of IFRS 9, the Group had designated available for sale amounted 4,050 thousand which were stock investment as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Group also had designated available for sale amounted 198,460 thousand which were open end funds as measured at FVPL. All fair value gains and losses would be recognized in profit or loss. The Group believes that the adoption would not have any material impact on its profit and loss.

(2) Impairment-Financial assets and contact assets

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

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

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

The Group believes that the adoption of the IFRS 9 would not have any material impact on its consolidate financial statement.

(3) Disclosures

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

(4) Transition

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

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

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

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

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

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

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(ii) IFRS 15 Revenue from Contracts with Customers

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

The Group has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

(1) Construction contracts

Contract revenue currently includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. When a claim or variation is recognized, the measure of contract progress or contract price is revised and the cumulative contract position is reassessed at each reporting date.

Under IFRS 15, claims and variations will be included in the contract accounting when they are approved.

Based on its assessment, the Group does not expect the application of IFRS 15 to have a significant impact on its consolidated financial statements.

(2) Sales of goods

For the sale of equipment, based on the acceptance terms in the contracts, the Group recognize revenue when the equipment are delivered to customers’ site, installation is completed and accepted by customer and related risks and rewards of ownership have been transfer to customers. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. For some made-to-order paper product contracts, the customer controls all of the work in progress as the products are being manufactured. When this is the case, revenue will be recognized as the equipment are being manufactured. This will result in revenue, and some associated costs, for these contracts being recognized earlier than at present – i.e. before the equipment are delivered, installed and accepted completely by the customers.

(3) Transition

The Group plans to adopt IFRS 15 using the cumulative effect method. Therefore, the comparative information will not be restated. The cumulative effect of initially applying IFRS 15 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2018. The Group plans to use the practical expedient in paragraph C5(a) of IFRS 15, under which, for contracts that are completed at the date of the initial application (i.e. 1 January 2018) will not be restated.

The Group estimates the adoption of IFRS 15, resulting in the increase of 105,128 thousand, 283,457 thousand, 104,200 thousand, in contract assets, contract liabilities and

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retained earnings, respectively; and a decrease of 1,395,932 thousand, 13,791 thousand, 1,692,252 thousand in inventories, deferred tax assets and advance sales receipts, respectively, on January 1, 2018. Due to the uncertainty of ROC income tax filing method, the related income tax effects of above cumulated effects would not be reasonably estimated; therefore the cumulated effect would not be considered.

(iii) Amendments to IAS 7 "Disclosure Initiative"

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

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

(iv) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Loss"

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The Group estimated the application of the amendments would not have a significant impact on its consolidated financial statements.

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

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

New, Revised or Amended Standards and Interpretations	**Effective date per IASB**
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019

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

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

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

(4) Summary of significant accounting policies:

The accompanying consolidated 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 consolidated financial statements, the Chinese version shall prevail.

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

(a) Statement of compliance

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

(b) Basis of preparation

1. Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on the historical cost basis:

(Continued)

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

(ii) Available-for-sale financial assets are measured at fair value;

(iii) The defined benefit asset is recognized as plan assets, plus, unrecognized past service cost, less, the present value of the defined obligation.

2. Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollar, which is the Company’s functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Basis of consolidation

1. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprised the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that the control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intragroup balances and transactions, and any unrealized income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

Changes in the Group’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group’s share of net assets before and after the change, and any considerations received or paid, are adjusted to or against the Group reserves.

2. List of subsidiaries in the consolidated financial statements

			Shareholding	
Name of investor	**Name of subsidiary**	**Principal activity**	**December 31, 2017**	**December 31, 2016**
(1)The Company	Nova Technology Corp. (Nova Tech) (Note 1)	Wholesale of electronic and chemical equipment	62.19	73.06
	HerSuo Engineering Co., Ltd. (HerSuo)	Construction and set-up of freezing equipment	100	100
	Enrich Tech Co., Ltd. (Enrich Tech)	Comprehensive construction company	60	60
	Sheng Huei International Co., Ltd. (Sheng Huei International)	Investment holding company	100	100
	Nova Technology Singapore Pte., Ltd.(NTS)	Investment holding company	100	100

(Continued)

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of investor	Name of subsidiary	Principal activity	Shareholding December 31, 2017	Shareholding December 31, 2016
(2)Nova Tech	Winmax Technology Corp. (Winmax)	Design and manufacture of air containers and liquid containers	100	100
	Winmega Technology Corp. (Winmega)	Wholesale of electronic and chemical engineering equipments	100	100
	Suzhou Winmax Technology Corp. (Suzhou Winmax)	Design and manufacture of air containers and liquid containers	100	100
	Novatech Engineering & Construction Pte., Ltd(NTEC)	Chemical supply system business	100	100
(3)Sheng Huei International	Sheng Huei (Suzhou) Engineering Co., Ltd. (Sheng Huei Suzhou)	Construction and set-up of electronic equipment and air conditioners	100	100
	Acter International Ltd.(Acter International)	Investment holding company and trading of clean rooms and air conditioners	100	100
	New Point Group Ltd.(New Point)	Investment holding company and trading of clean rooms and air conditioners	100	100
	Sheng Huei Engineering Technology Co., Ltd. (Sheng Huei Engineering)	Set-up of electronic protection systems and central air conditioners	100	100
(4)NTS	Nova Technology Malaysia Sdn. Bhd. (NTM)	Investment holding company	100	100
	PT. Novamex Indonesia. (NMI) (Note 2)	Huge machinery and other goods trading	100	100
	Acter Engineering Co., Ltd. (Acter Engineering) (Note 3)	Constructin and setup of electronic equipment and air conditioners	100	100
(5)Sheng Huei (Suzhou)	Shenzhen Ding –Mao Trade Co., Ltd. (Shenzhen Ding –Mao)	Electronic equipment and machinery trading	100	100
	SCEC (Suzhou) Corporation (SCEC Suzhou) (Note 4)	Construction and set-up of electronic equipment and air conditioners	-	57.81
	SCEC (Shanghai) Corporation (SCEC Shanghai) (Note 4)	Wholesale, import and export of equipment and commission agent	-	57.81
(6)Acter International	Sheng Huei (Shenzhen) Engineering Co., Ltd. (Sheng Huei Shenzhen)	Construction and set-up of electronic equipment and air conditioners	100	100

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ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name of investor	Name of subsidiary	Principal activity	Shareholding December 31, 2017	December 31, 2016
(7)New Point	ZShangjiagang Free Trade Zone Fuyu Internation Trade Co., Ltd. (Fuyu)	Agent for electronic equipment importing and exporting	100	100

Note 1: The Company sold 2.3% of shares of Nova Tech in June, 2016, bought 9.7% of shares of Nova Tech from Solar Applied Materials Technology Corporation in July, 2016, sold 11.26% of shares of Nova Tech to the Company's shareholders in September, 2016 and sold 2.03% of shares of Nova Tech in December, 2016.Nova Tech has increased capital in November, 2016 and the Company did not participate in this investment, therefore, the shareholding ratio decreased by 8.46%, making the shareholding of Nova tech decrease form 87.41% to 73.06%. The Company sold 1.85% shares of Nova Tech in December, 2017 and the Company did not participate in Nova tech's insurance of common stock for cash in December 2017. Therefore, the shareholding of Nova tech decreased from 73.06% to 62.19%.

Note 2: The ownership consists of 99% from NTS and 1% from NTM.

Note 3: The ownership consists of 99% from NTS and 1% from SHI.

Note 4: SCEC Suzhou and SCEC Shang Hai had been liquidated in 2017.

(iii) Subsidiaries excluded from the consolidated financial statement: None.

(d) Foreign currency

1. Foreign currency transactions

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following relating to the following, accounts which are recognized in other comprehensive income:

- Available-for-sale equity investment;
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or

- Qualifying cash flow relating to the following, hedges to the extent the hedge is effective.

2. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the reporting currency at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated at the average exchange rate. Translation differences are recognized in other comprehensive income, and are presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planed nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such on monetary items that are considered to form part of the net investment in the foreign operation and are recognized in other comprehensive income.

(e) Classification of current and non-current assets and liabilities

An operating cycle (usually one year to two year) is a criterion to make judgment on whether assets or liabilities related to construction contracts are classified as current or non-current. The rest assets and liabilities are classified according to the following criteria:

1. An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

   (1) It expects to be realized, or intended to be sold or consumed, in the normal operating cycle;

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

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

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

   A liability is classified as current under one of the following criteria, and all other liabilities are classified as noncurrent.

An entity shall classify a liability as current when:

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

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

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

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

(f) Cash and cash equivalents

Cash comprise cash balances, call deposits, and checking deposits. Cash equivalents are assets that are readily convertible into cash, and are subject to an insignificant risk of changes in their fair value. Time deposits are accounted under cash and cash equivalents if they are accord with the definition aforementioned, and are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose, readily convertible to a known amount of cash and have an insignificant risk of change in value.

(g) Financial instruments

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

1. Financial assets

Financial assets are classified into the following categories: loans and receivables and available-for-sale financial assets.

(i) Available-for-sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, under other income. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

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Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in comprehensive income items.

(ii) Receivables

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

Interest income is recognized in profit or loss, and it is included in non-operating income and expense.

(iii) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than the one suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Such impairment loss is not reversible in subsequent periods.

The carrying amount of a financial asset is reduced for an impairment loss, except for trade receivables, in which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written

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off against the allowance account. Any subsequent recovery from written off receivable is charged to the allowance account. Changes in the allowance accounts are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

Impairment losses recognized on available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment losses and gain on recovery are recognized in profit or loss under "other gains and losses, net".

(iv) Derecognition of financial assets

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

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

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

2. Financial liabilities and equity instruments

(i) Classification of debt or equity

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

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

Preferred share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Discretionary dividends thereon are recognized as distributions within equity upon approval by the Group's shareholders. Preferred share capital is classified as a financial liability if it is redeemable on a specific date or at the option of the shareholders, or if the dividend payments are not discretionary.

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, when the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognized initially at fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss, and included in non-operating income and expense.

On conversion, financial liability is reclassified to equity, and no gain or loss is recognized.

(ii) Other financial liabilities

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

(iii) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income and expenses.

(iv) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(Continued)

(h) Inventories

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

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

(i) Construction Contracts

Construction contracts in progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost, plus profit recognized to date (see note 6(4)) less progress billings and recognized losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group’s contract activities based on normal operating capacity.

Construction contracts in progress is presented as the amount due from customers for contract work in the statements of financial position for all contracts in which costs incurred, plus, recognized profits exceed progress billings. If progress billings exceed costs incurred, plus, recognized profits, then the difference is presented as amount due to customers for contract work in the statement of financial position.

Contract costs that are not probable of being recovered are recognized as an expense immediately. Examples of circumstances in which the recoverability of contract costs incurred may not be probable and in which contract costs may need to be recognized as an expense immediately include:

(1) that are not fully enforceable, meaning their validity is seriously in question;

(2) the completion of which is subject to the outcome of pending litigation or legislation;

(3) relating to properties that are likely to be condemned or expropriated;

(4) hen the customer is unable to meet its obligations; or

(5) when the contractor is unable to complete the contract or otherwise meet its obligations under the contract.

(j) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Group’ s share of the profit or loss and other comprehensive income of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When changes in an associate’s equity is caused by non-profit-or loss or other comprehensive income transactions, with no impact on the Group’s shareholding ratio, the Group recognizes the changes in ownership interests of the associate attributable to the Group as capital surplus in proportion to its ownership associate.

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group’s interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group’s share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

(k) Investment property

Investment property is a property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, and any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalized borrowing costs.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(l) Property, plant and equipment

(i) Recognition and measurement

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

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as on the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized in profit or loss, under net other income and expenses.

(ii) Subsequent cost

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

(iii) Depreciation

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

Leased assets are depreciated by the straight-line method during the period of expected use, consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore, is not depreciated.

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

(1) Buildings: 5~50 years

(2) Other facilities: 3~9 years

(3) The significant portion of plant and building consists of its main building and miscellaneous parts, which are estimated over their useful life within 5~50 years.

(4) The significant portion of other facilities consists of transportation vehicles and others, which are estimated over their useful life within 3~9 years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectation differs from the previous estimate, the changes are accounted for as changes in accounting estimates.

(m) Lease

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee

(Continued)

to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income is reduced accordingly.

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(ii) Lessee

Other leases are operating leases and are not recognized in the Group’s balance sheets.

Payments made under operating leases (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

Contingent rent is recognized as expense in the period in which it is incurred.

(n) Intangible assets

(i) Other Intangible Assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Depreciable amount of intangible asset is calculated based on the cost of an asset less its residual values.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful live of intangible assets from the date of available-for-use. The estimated useful lives of computer software is three years.

The residual value, amortization period, and the amortization method for an intangible asset shall be reviewed at least annually at each fiscal year end. Any changes shall be accounted for as changes in accounting estimate.

(o) Impairment of non financial assets

The Group assesses non-derivative financial assets for impairment (except for inventories, assets arising from construction contracts, deferred income tax assets and employee benefits) at every reporting date, and estimates its recoverable amount. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for individual asset or a CGU is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Such is deemed as an

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impairment loss, which is recognized immediately in profit or loss.

The Group assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing an impairment loss. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization), if no impairment loss had been recognized.

(p) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(q) Revenue

(i) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs; survey of work performed or completion of a physical proportion of the contract work. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

(ii) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, and the associated costs and possible return of goods can be estimated reliably.

(Continued)

(r) Employee benefits

(i) Defined contribution plans

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

(ii) Defined contribution plans

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

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

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

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income into retained earnings or other equity. Once the amounts are reclassified into other equity, they shall not be reclassified into profit or loss or recognized in retained earnings in a subsequent period. Remeasurements of the defined benefit plans are recognized in retained earnings.

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

(iii) Short-term employee benefits

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

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

(s) Share-based payment

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

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

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and settlement date. Any changes in the fair value of the liability are recognized as personnel expenses in profit or loss.

(t) Income Taxes

Income tax expense includes both current taxes and deferred taxes, which are recognized as profit or loss except for the involvement in business combination and direct recognition in equity or other comprehensive income.

Current tax includes expected current tax payable or tax refund receivable calculated by taxable income (loss) for the year multiplied by legal tax rate or substantial legislative tax rate on the reporting date, and any prior year income tax payable adjustment.

Deferred tax is measured on the tax rate4 for the period of expected asset realization or setrtlement of liabilities, with legal tax rate or substantial legislative tax rate on reporting date as a basis.

Deferred tax is measured and recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for corresponding tax bases. Deferred tax is not recognized when temporary differences arise from the following situations:

(i) Initial recognition of assets and liabilities in non business combination transactions. Such transactions do not influence the accounting income and taxable income (loss).

(ii) Temporary differences arising from investment in subsidiaries and joint ventures, and reversal of them is not expected in the probable foreseeable future.

(iii) Initial recognition of goodwill.

Deferred tax is measured on the tax rate for the period of expected asset realization or settlement of liabilities, with ledge tax or substantial legislative tax rate on reporting date as a basis.

Deferred tax asset and deferred tax liability offset occurs when the following criteria is met:

(i) A legal enforcement exists to offset current income tax asset and liability; and

(ii) Deferred tax asset and liability relates to taxpayers as the following, whose tax is levied by the same taxing authority:

(1) Taxpayer remains the same; or

(2) Taxpayer differs, yet each taxpayer intends to settle the current tax liability and asset on a netting basis or have the asset realized and settle the liability simultaneously, in the future with a significant amount of recoverable deferred tax asset and settlement of deferred tax liability.

A deferred tax asset is recognized for the unused taxable losses and unused tax credits carry forward, and deductible temporary differences to the extent that future taxable income is probably available for use. It is also subject to re-evaluation in every subsequent reporting date, and downward adjustment is made to the extent that realization of related income tax benefit is not probable.

(u) Earnings per share

The Group discloses the Company’s basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding.

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as employee bonuses and employee stock bonuses or rewards that have not yet been authorized by the stockholders’ meeting.

Incremental shares from issuance of shares from earning or capital surplus are calculated through retroactive adjustment.

(v) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group’s chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

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

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Management continues to monitor the accounting assumptions and estimates. The Management recognized any changes in the accounting estimates during the period and the impact of the changes in the accounting estimates in the next period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(a) Revenue recognition

Contract revenue and costs are recognized by reference to the stage of completion of each contract. The stage of completion of a contract is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

Estimated total contract costs of contracted items are assessed and determined by the management based on the nature of activities, expected construction periods, processes, methods, etc., for each construction contract. Changes in these estimates might affect the calculation of the percentage of completion and related profits from construction contracts. Refer to note 6 (d) for further description of the for revenue recognition.

(b) Impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is considered each clients' credit record, financial position and aging of account receivables and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. Refer to note 6 (3) for further description of the impairment of trade receivable.

(c) Recognition and measurement of provisions

Provision for warranty is estimated when construction revenue is recognized. The estimate has been made based on the provision conditions of contracts and the historical records of warrnty. There could be a significant adjust on provision for warranty for any change in the basis of the estimate. Refer to note 6 (k) for further description of the recognition and measurement of provisions.

If the Group judges the contract cost that are not probable of being recovered, it will be recognized as expense immediately. If the construction lawsuit which is still in trial, the possibility of recovering the cost depends on the outcome of the pending litigation. The construction loss and construction loss provision are estimated based on the pending litigation which are likely to have unfavorable outcome and the loss amount can be reasonably estimated. Due to the outcome of the lawsuit is still highly uncertain, there might be a significant difference between the court decision or actual compensation and the estimation. Please refer to Note 9. Commitments and contingencies (VI).

When measuring the assets and liabilities, the Group uses observable inputs in the market at its best. The hierarchy of fair value is classified based on the input used by the valuation techniques as follows:

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

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Petty cash and cash on hand	$ 1,118	1,396
Checking and demand deposits	2,249,161	1,626,616
Time deposits	1,139,760	496,046
Cash equivalent - repurchased commercial paper	536,851	429,420
	$ 3,926,890	**2,553,478**

The above-mentioned repurchased commercial paper rate as of December 31, 2017 and 2016 was 0.38%~0.43% and 0.32%~0.55%, respectively, and it matures from January 4 to January 29, 2018 and from January 4 to February 3, 2017, respectively.

Please refer to note 6 (u) for the disclosure of sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

(b) Investment in financial assets

	December 31, 2017	December 31, 2016
Current:		
Available-for-sale financial assets		
Beneficiary securities - open-end funds	$ 198,460	202,046
Non-current:		
Available-for-sale financial assets		
Holy Stone Healthcare Co., Ltd.	4,050	3,960
Financial assets carried at cost		
Taichung International Entertainment Co., Ltd.		
(under other noncurrent assets)	45	45
Total	**$ 202,555**	**206,051**

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) In February, 2016, The Group has disposed all shares of Xantia Corporation Co., Ltd. at $1,714 and derecognized $14,363 unrealized losses on available-for-sale financial assets which were originally recognized in other comprehensive income. Losses on disposal of investment is $17,932 and the related consideration has been collected before March 31, 2016.
Please refer to note 6 (q) for the gain (losses) on disposal of investments.

(ii) The aforesaid financial assets were not pledged.

(iii) The aforementioned investments held by the Group are measured at cost less impairment losses on the reporting date. The fair values of these investments cannot be measured reliably because the range of reasonable fair value estimates is wide and the probabilities for each estimate cannot be reasonably determined.

(iv) The risk of credit, currency and interest related to the financial instruments was disclosed in note 6 (u).

If the stock price changes at the reporting date, the changes in other comprehensive income of the Group are as follows: (The analysis was made on the same basis for both periods, assuming that all other variables remain constant):

	2017		2016	
Stock Price	**Other Comprehensive income (net of tax)**	**Net Income (net of tax)**	**Other Comprehensive income (net of tax)**	**Net Income (net of tax)**
Increase by 3%	**$ 6,075**	**-**	**6,180**	**-**
Decrease by 3%	**$ 6,075**	**-**	**6,180**	**-**

(c) The net of notes and accounts receivable and other receivables

From operating activities:	**December 31, 2017**	**December 31, 2016**
Notes receivable	$ 156,038	95,956
Accounts receivable	2,625,114	2,605,527
Less: Allowance for impairment	(215,449)	(254,547)
	2,565,703	2,446,936
Other receivables	124,321	51,355
Less: Allowance for impairment	(13,759)	(21,273)
Total	**$ 2,676,265**	**2,477,018**

The aging analysis of notes receivable, accounts receivable and other receivables which were past due but not impaired were as follows:

	December 31, 2017	December 31, 2016
Past due 1-120 days	$ 98,505	245,178
Past due 121-180 days	2,838	39,881
Past due 181-360 days	11,516	120,012
Past due 361-540 days	3,634	4,385
	$ 116,493	**409,456**

(i) Accounts receivable includes retained construction receivable, which amounted to $33,296, and $87,706 as of December 31, 2017 and 2016, respectively.

(ii) The Group does not obtain collateral for the above collectibles, and the notes and accounts receivable are not pledged.

(iii) Impairment loss is the difference between the carrying amount and the amount expected to be collected. The movement in the allowance for impairment with respect to notes and accounts receivable and other receivables for the year ended December 31, 2017 and 2016 were as follows:

	2017	2016
Balance, January 1	$ 275,820	183,920
Impairment loss recognized	(3,630)	109,767
Amounts written off	(38,224)	-
Effect of exchange rate changes	(4,758)	(17,867)
Balance, December 31	**$ 229,208**	**275,820**

(d) Construction contracts

(i) Construction revenue and loss

Construction contract revenue of the Group has been determined based on the percentage - of - completion method. The extent of completion is determined based on contract costs incurred for work performed to date in proportion to the estimated total contract costs. Any expected excess of the total contract costs over the total contract revenue is immediately recognized as construction cost.

	2017	2016
Construction revenue recognized in the periods	**$ 9,206,324**	**6,786,540**

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Construction-in-progress

		December 31, 2017	December 31, 2016
Accumulated construction costs incurred (including contract costs that relate to future activity)	$	10,323,332	9,026,757
Add: Accumulated construction profit and losses		857,760	327,635
		11,181,092	9,354,392
Less: Progress billings		(10,402,258)	(9,478,454)
Net receivables (payables) of construction contracts	**$**	**778,834**	**(124,062)**
Construction contracts receivable presented as an asset	$	1,543,171	904,016
Construction contracts payable presented as a liability		(764,337)	(1,028,078)
	$	**778,834**	**(124,062)**
Advance received before construction begins	**$**	**9,215**	**6,057**

(e) Inventories

		December 31, 2017	December 31, 2016
Finished goods and merchandise	$	22,327	398,579
Work in process and semi-finished goods		1,475,964	726,967
Raw materials		169,354	80,221
		1,667,645	1,205,767
Less: provision for inventory devaluation		(14,086)	(11,770)
	$	**1,653,559**	**1,193,997**

For the years ended December 31, 2017 and 2016, the Group wrote down an operating cost of $2,316 and $8,761, respectively, from the write-down of inventory cost to net realizable value.

The inventories are not pledged for the year ended December 31, 2017 and 2016.

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) Investment in equity-accounted investees

(i) Associates

The relevant information of the Group's equity-accounted investees is as follows:

Associates	Relationship with the Company	Main Business Location /Registered country	Percentage of ownership and voting share December 31, 2017	Percentage of ownership and voting share December 31, 2016
Global OneSource Life Sciences Company Ltd.	Service for project management and consulting of techniques and design for pharmacy and medication, which is the Group' s investment	Hong Kong	40%	40%

The Group' s equity-accounted investment in all individually immaterial associates and the Group's share of the operating results are summarized below:

	December 31, 2017	December 31, 2016
The carrying amount of the Group's interests in all individually immaterial associates	$ 1,990	2,192

	2017	2016
Profit attributable to the Group:		
Loss from continuing operation	$ (8)	(234)
Comprehensive income	$ (8)	(234)

(ii) Associates invested by the Company do not have quoted price. The investment accounted for using equity method was not pledged.

(g) Changes in a parent's ownership interest in a subsidiary

(i) Disposal of part of equity ownership of subsidiaries without losing control

The company sold 1.85% of shares of Nova Tech in December, 2017.

The Company sold 2.3% of shares of Nova Tech in June, 2016 and sold 2.03% of shares of Nova Tech in December, 2016.

The company sold 11.26% of shares of Nova Tech to the company's shareholders in September , 2016 and bought 9.7% of shares of Nova Tech in July, 2016.

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ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

The effects of the changes in shareholdings were as follows:

	2017	2016
Book value of the shares disposed	$ (32,264)	(141,861)
Carrying amount of non-controlling interest on acquisition	-	78,593
Consideration transferred from the non-controlling interest	73,980	181,052
Consideration paid to non-controlling interests	-	(87,402)
Capital surplus differences between consideration and carrying amounts subsidiaries acquired	**$ 41,716**	**30,382**

(ii) The company not participated in subsidiaries' common stock issuance by proportion but without losing the control of the subsidiaries.

The Group's subsidiary, Nova Tech, had issued common stock for cash in December, 2017 and November, 2016. The company did not participate in this investment by proportion, therefore, the shareholding decreased by 9.02% and 8.46%. Carrying amount of the investment had been increased 304,711 and 19,419, respectively, which had been adjusted to capital surplus changes in ownership interest in subsidiaries.

(h) Significant subsidiaries of non-controlling interest

Non-controlling interests of subsidiaries of the Group that are significant to the Group are as follows:

		Percentage of non-controlling ownership	
Subsidiaries	**Main Business Location/Registered Country**	**December 31, 2017**	**December 31, 2016**
Nova Tech	R.O.C.	37.81%	26.94%
Enrich Tech	R.O.C.	40%	40%
SCEC Shanghai	China	(Note 1)	42.19%
SCEC Suzhou	China	(Note 1)	42.19%

Note 1:SCEC Shanghai and SCEC Suzhou had been liquidated in 2017.

The following information of the aforementioned subsidiaries has been prepared in accordance with IFRS endorsed by the FSC. Included in these information are adjustment made about the fair value and relevant difference in accounting principles between the Company and its subsidiary as at acquisition date. Intra-group transactions were not eliminated in this information.

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Information regarding of Nova Tech:

	December 31, 2017	December 31, 2016
Current assets	$ 2,149,828	1,494,559
Non-current assets	1,021,468	740,861
Current liabilities	(1,043,772)	(1,089,135)
Non-current Liabilities	(129,888)	(80,667)
Net assets	**$ 1,997,636**	**1,065,618**
Non-controlling interest	**$ 755,402**	**287,079**

	2017	2016
Operating revenue	**$ 1,446,807**	**1,284,689**
Net income for the period	$ 447,475	264,391
Other comprehensive income	(7,940)	(47,674)
Comprehensive income	**$ 439,535**	**216,717**
Net income attributable to non-controlling interest	**$ 120,550**	**28,077**
Comprehensive income attributable to non-controlling interest	**$ 118,410**	**22,947**
Cash flows from operating activities	$ 188,502	258,468
Cash flows from investing activities	13,333	29,721
Cash flows from financing activities	480,498	40,240
Net increase in cash and cash equivalents	**$ 682,333**	**328,429**

(ii) Information regarding of Enrich Tech:

	December 31, 2017	December 31, 2016
Current assets	$ 193,670	116,881
Non-current assets	2,630	755
Current liabilities	(109,236)	(79,505)
Net assets	**$ 87,064**	**38,131**
Non-controlling interest	**$ 34,826**	**15,252**

(Continued)

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

		2017	2016
Operating revenue	$	**540,406**	**54,291**
Net income (loss) for the period	$	48,933	(15,972)
Other comprehensive income (loss)		-	-
Comprehensive income	$	**48,933**	**(15,972)**
Net income attributable to non-controlling interest	$	**19,574**	**(6,389)**
Comprehensive income attributable to non-controlling interest	$	**19,574**	**(6,389)**
Cash flows from operating activities	$	5,188	4,700
Cash flows from investing activities		(3,231)	(66)
Cash flows from financing activities		-	-
Net increase in Cash and cash equivalents	$	**1,957**	**4,634**

(iii) Information regarding of SCEC Shanghai (Note 1):

		December 31, 2017	December 31, 2016
Current assets	$	-	24,869
Non-current assets		-	-
Current liabilities		-	(1,051)
Net assets	$	**-**	**23,818**
Non-controlling interest	$	**-**	**10,049**

		2017	2016
Operating revenue	$	**-**	**6,138**
Net income for the period	$	99	(3,733)
Other comprehensive income		-	-
Comprehensive income	$	**99**	**(3,733)**
Net income attributable to non-controlling interest	$	**42**	**(1,575)**
Comprehensive income attributable to non-controlling interest	$	**42**	**(1,575)**

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2017	2016
Cash flows from operating activities	$ -	1,502
Cash flows from investing activities	-	115
Cash flows from financing activities	-	67
Effect of exchange rate changes	-	(395)
Net increase (decrease) in cash and cash equivalents	**$ -**	**1,289**

(iv) Information regarding of SCEC Suzhou (Note 1):

	December 31, 2017	December 31, 2016
Current assets	$ -	12,666
Non-current assets	-	-
Current liabilities	-	(504)
Net assets	**$ -**	**12,162**
Non-controlling interest	**$ -**	**5,131**

	2017	2016
Operating revenue	**$ -**	**5,101**
Net income for the period	(426)	(5,990)
Other comprehensive income (loss)	-	-
Comprehensive income	**$ (426)**	**(5,990)**
Net income attributable to non-controlling interest	**$ (180)**	**(2,527)**
Comprehensive income attributable to non-controlling interest	**$ (180)**	**(2,527)**

	2017	2016
Cash flows from operating activities	$ -	3,961
Cash flows from investing activities	-	6
Cash flows from financing activities	-	-
Effect of exchange rate changes	-	(1,034)
Net increase (decrease) in cash and cash equivalents	**$ -**	**2,933**

Note 1: SCEC Shanghai and SCEC Suzhou had been liquidated in 2017.

(Continued)

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Property, plant and equipment

		Land	Building and construction	Other facilities	Unfinished construction and equipment under acceptance	Total
Cost:						
Balance on January 1, 2017	$	183,187	176,974	108,204	4,393	472,758
Additions		-	-	22,820	26,884	49,704
Disposals		-	-	(7,081)	-	(7,081)
Reclassification		-	31,145	-	(31,145)	-
Effect of movements in exchange rates		-	(496)	(951)	(132)	(1,579)
Balance on December 31, 2017	**$**	**183,187**	**207,623**	**122,992**	**-**	**513,802**
Balance on January 1, 2016	$	183,187	184,555	110,331	1,420	479,493
Additions		-	-	25,795	3,098	28,893
Disposals		-	-	(21,362)	-	(21,362)
Effect of movements in exchange rates		-	(7,581)	(6,560)	(125)	(14,266)
Balance on December 31, 2016	**$**	**183,187**	**176,974**	**108,204**	**4,393**	**472,758**
Depreciation:						
Balance on January 1, 2017	$	-	34,194	64,034	-	98,228
Depreciation		-	6,354	13,594	-	19,948
Disposals		-	-	(5,611)	-	(5,611)
Reclassifications		-	-	-	-	-
Effect of movements in exchange rates		-	(180)	(554)	-	(734)
Balance on December 31,2017	**$**	**-**	**40,368**	**71,463**	**-**	**111,831**
Balance on January 1, 2016	$	-	29,077	70,062	-	99,139
Depreciation		-	6,705	14,380	-	21,085
Disposals		-	-	(15,392)	-	(15,392)
Reclassifications		-	-	(173)	-	(173)
Effect of movements in exchange rates		-	(1,588)	(4,843)	-	(6,431)
Balance on December 31, 2016	**$**	**-**	**34,194**	**64,034**	**-**	**98,228**
Carrying amounts:						
Balance on December 31, 2017	**$**	**183,187**	**167,255**	**51,529**	**-**	**401,971**
Balance on January 1, 2016	**$**	**183,187**	**155,478**	**40,269**	**1,420**	**380,354**
Balance on December 31, 2016	**$**	**183,187**	**142,780**	**44,170**	**4,393**	**374,530**

Please refer to Note 8 for details of the property, plant and equipment pledged as collateral.

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Investment Property

	Land and improvement	Building and construction	Facilities	Total
Cost:				
Balance on December 31, 2017 (Balance on January 1, 2017)	$ **139,922**	**111,777**	**86**	**251,785**
Balance on January 1, 2016	$ 20,937	12,561	86	33,584
Additions	118,985	99,216	-	99,216
Balance on December 31, 2016	$ **139,922**	**111,777**	**86**	**251,785**
Depreciation:				
Balance on January 1, 2017	$ -	3,486	71	3,557
Depreciation	-	2,487	-	2,487
Balance on December 31, 2017	$ **-**	**5,973**	**71**	**6,044**
Balance on 1 January 2016	$ -	2,976	71	3,047
Depreciation	-	510	-	510
Balance on December 31, 2016	$ **-**	**3,486**	**71**	**3,557**
Carrying amounts:				
Balance on December 31, 2017	$ **139,922**	**105,804**	**15**	**245,741**
Balance on January, 2016	$ **20,937**	**9,585**	**15**	**30,537**
Balance on December 31, 2016	$ **139,922**	**108,291**	**15**	**248,228**
Fair value:				
Balance on December 31, 2017				$ **278,263**
Balance on December 31, 2016				$ **264,458**

The board of directors of Acter resolved in July 12, 2016 to acquire the building on Beitou District, Taipei and West District, Taichung, for non-operating purpose and recognized as investment property.

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 of December 31, 2017, the future receivable for the Group was as follows:

Term	Amount
2018.1.1~2019.5.19	$ **900**

(i) The original recognition of investment property is measured at cost, and the subsequent measurement is also accounted for under cost model.

(ii) The depreciation is calculated by its depreciable amount after the original recognition of investment property, and market value is used as the fair value to asset its impairment.

(iii) The investment property is not pledged.

(k) Provisions

The movement in the provisions with respect to warranties was as follows:

	2017	2016
Balance on January 1	$ 235,573	192,982
Provisions made during the period	303,095	129,355
Provisions used during the period	(202,867)	(76,881)
Effect of movements in exchange rates	(206)	(9,883)
Balance on December 31	**$ 335,595**	**235,573**

The Group's warranty provision is estimated based on historical data of the construction contract. Most liabilities are expected to occur during the warranty period that is mentioned in the contract since completion of the construction.

(l) Short-term loans

	December 31, 2017	December 31, 2016
Unsecured bank loans	$ 344,806	193,680
Secured bank loans	-	-
	$ 344,806	**193,680**
Unused facilities	**$ 5,037,194**	**2,238,288**
Interest Rate	**2.5%~4.785%**	**1.8%~2.5%**

For details of the related assets pledged as collateral, please refer to Note 8.

(m) Advance sales receipts

Projects	December 31, 2017	December 31, 2016
W3-XXC071X	$ 349,982	-
W3-XXCX6XX	339,719	-
N3XX16C20X	240,560	-
W3-XXC001X	-	174,261
WS-XXC001X	93,977	-
W3-XXC002X	-	111,581
N3XXC123	-	62,000
W3-XXCXX0X	94,889	-
W3-XXC06XX	86,387	-
W3-XXC08X	-	77,447
W3-XXC053X	-	75,946
W3-XXC121X	-	64,827
W3-XXC092X	-	54,626
Other (Net less than 5%)	500,736	434,658
	$ 1,706,250	**1,055,346**

(Continued)

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Employee benefits

(i) Defined benefit plans

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

	December 31, 2017	December 31, 2016
Present value of defined benefit obligation	$ 66,578	59,466
Fair value of plan assets	(21,120)	(19,066)
Defined benefit obligations	**$ 45,458**	**40,400**

The Group makes defined benefit plan contributions to the pension fund account in the Bank of Taiwan. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on the years of service and the average monthly salary for six months prior to retirement.

(1) Composition of plan assets

The Group set aside pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to these funds, its minimum earnings in the annual distributions on the final financial statements shall not be less than the earnings from two-year time deposits with the interest rates offered by local banks.

The Group’s labor pension reserve account balance in the Bank of Taiwan amounted to $21,120 as of December 31, 2017. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

(2) Movement in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations for the Group were as follows:

	2017	2016
Balance, January 1	$ 59,466	51,909
Service cost and interest for the period	826	973
Remeasurement of the net defined benefit liability (asset)		
－Actuarial loss arising from changes in financial assumptions	1,675	-
－Actuarial loss arising from changes in financial assumptions	(2,653)	4,820
－Actuarial loss arising from changes in experience adjustments	7,264	1,764
Balance, December 31	**$ 66,578**	**59,466**

(Continued)

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(3) Movement in fair value of defined benefit plan assets

The movement in fair value of defined benefit plan assets for the Group were as follows:

	2017	2016
Balance, January 1	$ 19,066	17,004
Contributions made	1,872	1,902
Interest revenue	278	337
Actuarial gain (loss)	(96)	(177)
Balance, December 31	**$ 21,120**	**19,066**

(4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group were as follows:

	2017	2016
Net interest cost of net defined benefit liability	**$ 548**	**636**
Operating cost	$ 130	154
Operating expense	418	508
	$ 548	**662**

(5) Actuarial gains and losses are recognized in other comprehensive income

The actuarial gains and losses are recognized in other comprehensive income for the Group were as follows:

	2017	2016
The Company	$ (4,895)	(5,326)
Non-controlling interests	(1,487)	(717)
Recognition for the period	**$ (6,382)**	**(6,043)**

(6) Actuarial assumptions

The significant actuarial assumptions used to determine the present value of defined benefit obligation by the Group at the reporting date are as follows:

	December 31, 2017	December 31, 2016
Discount rate	1.667 %	1.417 %
Future salary rate increases	3.00 %	3.00 %

The Group is expected to make a contribution payment of $1,878 to the defined benefit plans for the one year period after the reporting date.

The weighted – average duration of the defined benefit plans is 18.91 years.

(Continued)

(7) Sensitivity analysis

	The impact on defined benefit obligation	
	Increase 0.25%	**Decrease 0.25%**
Discount rate	$ (2,623)	2,746
Future salary increase (decrease)	2,667	(2,564)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

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

(ii) Defined contribution plans

The Company, HerSuo, Nova Tech and Enrich Tech contribute an amount at the rates of 6% of the employee's monthly wages to the Labor Pension personal account with the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. The Group's offshore subsidiaries contribute pension to local social insurance agency in accordance with the provisions of local act. The Group's contributions to the Bureau of the Labor Insurance or other local social insurance agency for the employees' pension benefits require no further additional payment of legal or constructive obligations.

For the years ended December 31, 2017 and 2016, the Group set aside $22,058 and $22,621, respectively, of the pension costs under the defined contribution method.

(o) Capital and other equity

(i) Issuance of common stock

The Company's shareholders' meeting on June 18, 2014 approved the issuance of restricted stock to employees, with a total shares amounting to 1,200,000, and issued by batch. The first batch amounting to 480,000 shares has been issued and its total value amounted to $4,800 in December 2014, with a par value $10, approbated by the Financial Supervisory Commission, effective on January 12, 2015. The record date of issuance of restricted stock to employees resolved by the board of directors was January 26, 2015. The Company filed an issuance of restricted stock to employees on May 28, 2015 for 720,000 shares, with a total shares amounting to $7,200 and a par value $10. The effective date of this issuance is June 12, 2015. The record date of issuance of restricted stock to employees resolved by the board of directors was January 11, 2016.

On May 31, 2016, November 8, 2016 and May 11, 2017 The Company's board of directors approved to write off restricted stock to employees 28,000 shares 71,000 shares and 84,000 shares, respectively. The record date of capital reduction were June 8, 2016, November 15, 2016 and June 1, 2017, respectively. The company had finished the capital reduction registration.

As of December 31, 2017 and 2016, the authorized common stock was $720,000, while the issued common stock amounted to $471,529 and $472,369, respectively, with a par value of $10 per share.

(ii) Capital surplus

The components of the capital surplus were as follows:

	December 31, 2017	December 31, 2016
From issuance of common stock	$ 919,074	903,124
Difference between consideration and carrying amount of subsidiaries acquired or disposed	72,098	30,382
Changes in ownership interest in subsidiaries	371,206	66,495
From insurance of restricted stocks for employees	49,720	71,655
	$ 1,412,098	**1,071,656**

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total common stock outstanding.

(iii) Retained earnings

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 and the remaining balance 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 shall be 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 should not be less than 10% of the total stockholders' bonuses, and they will be recommended by the board of directors and resolved in the stockholders' meeting.

(1) Legal reserve

In accordance with the Company Act, 10 percent of net income should be set aside after offsetting accumulated deficits, if any, as legal reserve, until it is equal to issued common stock. If the Company experienced profit for the year, the meeting of shareholders shall decide on the distribution of the legal reserve either by new shares or by cash of up to 25 percent of the paid-in capital.

(2) Special reserve

In Accordance with Ruling No.1010012865 issued by the FSC on April 6, 2012, the difference between the total net reduction of other shareholders' equity and the carrying amount of special earnings reserve as stated above shall be reclassified as a special earnings reserve during earnings distribution. Other prior accumulated debit balance of stockholders equity was recognized as additional special reserve from prior undistributed earnings, and distributions were prohibited. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

According to the Letter No.1010051600 issued by the FSC on November 21, 2012, the "Unearned employee benefit" arising from issuing restricted stock to employees is unrealized gains and losses, therefore, it's no need to set aside special reserve.

As of December 31, 2017 and 2016, the Company's balance of special reserve were $44,052 AND $36,888.

(3) Earnings distribution

On May 26, 2017, and May 31, 2016, the meeting of stockholders of Acter approved the distribution plan of retained earnings proposed by the Board of Directors. The information about dividends per share for 2016 and 2015 is as follows:

	2017	2016
Dividends per share (In New Taiwan Dollars):		
Cash	**$ 8.00**	**6.00**

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.

(4) Other equity interest (net of tax)

	Foreign currency translation differences for foreign operations	Investment in available-for-sale financial assets	Other Equity-Unearned employee benefit	Total
Balance, January1, 2017	$ (38,155)	(5,898)	(34,798)	(78,851)
Foreign currency translation differences (net of tax):				
The Group	(14,444)	-	-	(14,444)
Unrealized gains(losses) on available-for-sale financial assets:				
The Group	-	1,936	-	1,936
Unearned employee benefit				
The Group	-	-	24,710	24,710
Balance, December 31, 2017	**$ (52,599)**	**(3,962)**	**(10,088)**	**(66,649)**

(Continued)

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Foreign currency translation differences for foreign operations	Investment in available-for-sale financial assets	Other Equity-Unearned employee benefit	Total
Balance, January1, 2016	$ 58,573	(14,583)	(20,845)	23,145
Foreign currency translation differences (net of tax):				
The Group	(96,728)	-	-	(96,728)
Unrealized gains(losses) on available-for-sale financial assets:				
The Group	-	8,685	-	8,685
Unearned employee benefit				
The Group	-	-	(13,953)	(13,953)
Balance, December 31, 2016	**$ (38,155)**	**(5,898)**	**(34,798)**	**(78,851)**

(p) Share-based payment

The Company's shareholders' meeting on June 18, 2014 approved the issuance of restricted stock to employees, with a total shares amounting to 1,200,000, and issued by batch. The first batch amounting to 480,000 shares has been issued and its total value amounted to $4,800 in December 2014, with a par value $10, approbated by the Financial Supervisory Commission, effective on January 12, 2015. The record date of issuance of restricted stock to employees resolved by the Board of Directors was January 26, 2015. The Company filed an issuance of restricted stock to employees on May 28, 2015 for 720,000 shares, with a total shares amounting to $7,200 and a par value $10. The effective date of this issuance is June 12, 2015. The record date of issuance of restricted stock to employees resolved by the Board of Directors was January 11, 2016.

Employees with restricted stock awards are entitled to purchase the Company's shares at the price of NT$0 per share with the condition that these employees continue to work for the Company for the following three years and goals of financial performance in the next three years has been reached. 20%, 30% and 50% of the restricted shares of stock is vested in year 1, 2 and 3, respectively, when the above conditions are met. The restricted stock is kept by a trust, which is appointed by the Company, before it is vested. These shares of stock shall not be sold, pledged, transferred, gifted or by any other means of disposal to third parties during the custody period. These shares of stock are entitled to the right as the holders of common shares once issued, except for those shares kept by a trust or shares that do not meet the vesting condition. If the shares remain unvested after the vesting period, the Company will repurchase all the unvested shares at the issue price, and cancel the shares thereafter.

The relevant information of restricted stock to employee is as follows:

Unit: In thousand shares	2017	2016
Balance, beginning of the period	1,011	480
Granted	-	720
Vested	(224)	(90)
Forfeited	(84)	(99)
Balance, end of the period	**703**	**1,011**

(Continued)

The company has two share-based payment trade as of December 31, 2017：

	Equity-settled Restricted stock to employee	Equity-settled Restricted stock to employee
Grant date	2016.1.11	2015.1.26
Grant (Unit：In thousand shares)	720	480
Contractual life	105.1.11~108.1.11	104.1.26~107.1.26
Object of grant	The Company's employees who have formal employment relationship with the Company and serve as supervisors above manager level related to business operation	The Company's employees who have formal employment relationship with the Company and serve as supervisors above manager level related to business operation
Vesting conditions	Note 1	Note 1

Note 1: A restricted stock is vested when the Company' s financial performance given and employees' service years are met.

(i) The Company' s financial performance is measured by sum of operating revenue and profit before tax, less share of gain of subsidiaries accounted for using equity method (gain on long-term investment) when it reaches the goal set by the Company in the next three years since issuance.

(ii) Employees who are granted with restricted stock and serve in the Company before the vested period matures, and who do not violate against the labor contract or working rules, will be granted with restricted stock based on the following schedule and granted portion:

Year/Goal	Granted Service Years	Granted Percentage when Goals Reached
First year	1 year	20%
Second year	2 years	30%
Third year	3 years	50%

1. The company used the Black-Scholes options pricing model to value the fair value of the share-based payment at grant date, and the main inputs to the pricing model were as follows:

	2017 Restricted stock to employee	2016 Restricted stock to employee
Fair value at grant date	61.5 & 74.1	61.5 & 74.1
Stock price at grant date	82.5 & 80	82.5 & 80
Exercise price	-	-
Expected price volatility (%)	29.02% & 0.46%	29.02% & 0.46%
Life of option (year)	3	3
Expected price volatility (%)	9.76% & 2.52%	9.76% & 2.52%
Risk-free rate (%)	1.21% & 1.13%	1.21% & 1.13%

(Continued)

Expected price volatility is based on the weighted average of historical volatility, and it is adjusted when there is additional market information about the volatility. Life of option is determined by the Company's regulation regarding the issuance of restricted stock. Expected divided yield rate is determined based on the annual cash dividend yield rate measured by weighted stock index. Risk-free rate is determined based on rate of time deposits. Service and non-market performance conditions attached to the transactions are not taken into account in determining the fair value.

2. Relevant information on restricted stock to employee:

Information on restricted stock to employee was as follows:

	2017		2016	
(Expressed in thousand unit)	Weighted-Average Exercise Price	Number of Exercisable Shares	Weighted-Average Exercise Price	Number of Exercisable Shares
Balance, beginning of the period	-	1,011	-	480
Granted	-	-	-	720
Forfeited	-	(224)	-	(90)
Exercised	-	(84)	-	(99)
Balance, end of the period		**703**		**1,011**

	December 31, 2017	December 31, 2016
Weighted-average remaining contractual life	0.07~1.03	1.07~2.03

3. Expenses and liabilities resulting from share-based payments

The Company incurred expenses from shares-based payments transactions as follows:

	2017	2016
Expenses resulting from issuance of restricted stock to employees	**$ 17,885**	**35,637**

(q) Non-operating income and expenses

Other revenue

	2017	2016
Interest income	$ 19,338	9,074
Rental income	3,505	1,306
Others	(11,767)	12,179
	$ 11,076	**22,559**

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Other income and losses

	2017	2016
Exchange gain (loss) on foreign currency	$ (88,726)	1,883
Gain (Loss) on disposal of investment	1,975	(15,269)
Others	(27)	(11,285)
	$ (86,778)	**(24,671)**

(r) Remuneration to employees and directors

According to the Company’ s articles of incorporation, remuneration to employees and directors should be appropriated amounted not lower to 3% and not higher to 5% of profit before tax without remuneration to employees and directors for the current year, respectively, after any accumulated deficit is offset against the current period profit, if any.

For the year ended December 31, 2017 and 2016, the Company estimated its employee remuneration amounted to $61,369 and $20,608, and directors' and supervisors' remuneration amounting to $30,685 and $10,304, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were recognized under operating costs or operating expenses during 2017 and 2016. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2017 and 2016.

(s) Taxes

(i) Income tax expense

The amount of income tax expense (benefit) for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Current income tax expense (benefit):		
Current period	$ 174,552	143,413
10% surtax on undistributed earnings	5,638	14,445
Prior years income tax adjustment	15,245	(3,586)
	195,435	154,272
Deferred tax expense:		
Origination and reversal of temporary differences	145,675	(24,613)
Changes in deductible temporary difference without recognition	(2,396)	(258)
Recognition of previously unrecognized loss carry forward	(29,301)	12,391
	113,978	(12,480)
Income tax expense (benefit)	**$ 309,413**	**141,792**

(Continued)

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

The amount of tax income expense (benefit) recognized in other comprehensive income for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences－foreign operations	$ **(3,452)**	**(19,812)**

Reconciliation of income tax expense (benefit) and income before tax were as follows:

	2017	2016
Profit before tax	$ 1,291,553	595,654
Tax rate according to the Group's location	$ 219,564	101,261
Effect of difference in tax rate of foreign jurisdiction	148,548	62,552
Effect on income tax due to adjust tax law	(75,099)	(46,211)
Prior years income tax adjustment	15,245	(3,586)
Others	27,214	1,198
Unrecognized loss carry forward	(29,301)	12,391
Changes in unrecognized temporary difference	(2,396)	(258)
10% surtax on undistributed earnings	5,638	14,445
Total	$ **309,413**	**141,792**

(ii) Deferred tax asset and liability

(1) Unrecognized deferred tax asset

	December 31, 2017	December 31, 2016
Deductible temporary difference	$ 2,194	4,590
Loss carry forward	21,003	50,304
	$ **23,197**	**54,894**

The tax losses, which are the prior accounting losses examined and approved by the tax authorities, are deductible from profit before tax for the current year and then the rest of the profit is imposed on, according to local tax law of the Company and of the subsidiaries. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

(Continued)

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

As of December 31, 2017, the subsidiaries' estimated unused carry-forwards were as follows:

Company Name	Year of Occurrence	Unused amount	Expiry Year	Note
NTS	2016	3,974	-	Filing amount
NTM	2012	1,463	-	Filing amount
NTM	2013	882	-	Filing amount
NTM	2014	3,795	-	Filing amount
NTM	2015	4,281	-	Filing amount
NTM	2016	2,586	-	Filing amount
NTM	2017	94	-	Estimated filing amount
NTEC	2016	518	-	Filing amount
Sheng Huei Shenzhen	2013	769	2018	Filing amount
Sheng Huei Shenzhen	2015	28,314	2020	Filing amount
Sheng Huei Shenzhen	2016	17,469	2021	Filing amount
Sheng Huei Shenzhen	2017	19,595	2022	Estimated filing amount
		$ **83,740**		

(2) Recognized deferred tax asset and liabilities

Deferred tax asset:

	January 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2016	Recognized in profit or loss	Recognized in other comprehensive incom	December 31, 2017
Warranty cost	$ 39,801	6,034	-	45,835	(3,135)	-	42,700
Loss on investment in foreign equity-accounted investee	8,134	1,603	-	9,737	(9,737)	-	-
Estimated construction loss	8,940	(307)	-	8,633	(8,035)	-	598
Loss carry forward	19,534	3,285	-	22,819	(22,819)	-	-
Allowance for decline in realizable value of inventory	217	1,643	-	1,860	246	-	2,106
Allowance for decline in realizable value of inventory	32,777	25,182	-	57,959	(7,297)	-	50,662
Excessive provision of bad debt	41,251	(6,069)	-	35,182	(11,706)	-	23,476
Exchange of Unrealized Profits and Losses	578	(316)	-	262	6,228	-	6,490
Others	4,749	(2,150)	-	2,599	12,339	1,541	16,479
	$ **155,981**	**28,905**	**-**	**184,886**	**(43,916)**	**1,541**	**142,511**

(Continued)

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Deferred tax liability:

	January 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2016	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2017
Gain on investment in foreign equity-accounted investee	$ 153,126	17,132	-	170,258	69,825	-	240,083
Foreign currency translation differences for foreign operations	17,288	-	(15,412)	1,876	-	(1,876)	-
Others	1,715	(707)	-	1,008	237	-	1,245
	$ 172,129	**16,425**	**(15,412)**	**173,142**	**70,062**	**(1,876)**	**241,328**

(iii) Income tax examination and approval

The income tax returns of the Company, Hersuo, Nova Tech and Enrich Tech, have been examined by the tax authorities through year 2015.

(iv) Integrated income tax information

The Company’s integrated income tax information was as follows:

	December 31, 2017	December 31, 2016
Unappropriated earnings in 1998 and after	$ 1,584,541	1,175,969
Balance of the Imputation Credit Account	$ 179,618	196,363

	2017(Estimated)	2016(Actual)
Creditable ratio for distributed to domestic shareholders of earnings	11.34%	20.84%

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the R.O.C. on October 17, 2013.
According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Earnings per share ("EPS")

	2017	2016
Profit attributable to common shareholders	$ 842,154	436,276
Weighted average number of common shares (In thousand shares)	46,357	46,187
Basic Earnings per share (In New Taiwan Dollars)	$ 18.17	9.45
Profit attributable to common shareholders	$ 842,154	436,276
Weighted average number of common shares (In thousand shares)	46,357	46,187
Add: effect on dilutive potential common stock		
Employee bonuses (In thousand shares)	326	296
Restricted stock to employees (In thousand shares)	967	757
Diluted weighted average number of common shares (In thousand shares)	47,650	47,240
Diluted Earnings per share (In New Taiwan Dollars)	$ 17.67	9.24

(u) Financial Instruments

(i) Credit risk

(1) Exposure to credit risk

The carrying amount of financial assets represents the Group’s maximum credit exposure.

(2) Concentration of credit risk

As of December 31, 2017 and 2016, concentration of credit risk came from the Group’s top customer is not more than both 12% of the Group’s receivables, respectively, while that came from the Group’s other top four customers is not more than 27% and 20% of the Group’s receivables, respectively.

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payment and excluding the impact of netting agreements:

	Carrying amount	Contractual cash flows	Within 1 year	12 years	25years	More than 5 years
DDecember 31, 2017						
Non-derivative financial liabilities						
Secured bank loans and other accrued expenses	$ 344,806	346,115	346,115	-	-	-
Notes payable	220,246	220,246	220,246	-	-	-
Accounts payable (including related parties)	2,711,187	2,711,187	2,375,042	206,039	130,101	5
	$ 3,276,239	**3,277,548**	**2,941,403**	**206,039**	**130,101**	**5**
December 31, 2016						
Non-derivative financial liabilities						
Secured bank loans	$ 193,680	195,487	195,487	-	-	-
Notes payable	235,806	235,806	235,806	-	-	-
Accounts payable (including related parties) and other accrued expenses	2,128,928	2,128,928	1,829,776	160,533	138,614	5
	$ 2,558,414	**2,560,221**	**2,261,069**	**160,533**	**138,614**	**5**

The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Currency risk

(1) Exposure to currency risk

The Group's significant exposures to foreign currency risk were as follows:

	December 31, 2017			**December 31, 2016**		
	Foreign Currency	**Exchange Rate**	**NTD**	**Foreign Currency**	**Exchange Rate**	**NTD**
Financial assets						
Monetary items						
USD	$ 65,405	29.848	1,952,208	46,898	32.279	1,513,806
CNY	333,972	4.5835	1,530,760	224,458	4.6448	1,042,560
SGD	2,054	22.3238	45,843	1,667	22.3098	37,183
JPY	1,894	0.2649	502	27,029	0.2757	7,452
Financial liabilities						
Monetary items						
USD	13,547	29.848	404,342	10,097	32.279	325,912
CNY	295,117	4.5835	1,352,669	176,379	4.6448	819,246
SGD	252	22.3238	5,636	72	22.3098	1,614
JPY	48,275	0.2649	12,788	66,232	0.2757	18,260

(2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, available-for-sale financial assets, loans, accounts payable and other payables that are denominated in foreign currency. A 1% of appreciation or depreciation of the TWD against the USD, CNY, SGD and JPY as of December 31, 2017 and 2016 would have increased or decreased the before-tax net income by $17,539 and $14,360, respectively. The analysis is performed on the same basis for both periods.

(3) Exchange gains and losses of monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the year ended December 31, 2017 and 2016, the foreign exchange gain or loss, including both realized and unrealized, amounted to $(88,726) and $1,883, respectively.

(4) Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in this note of liquidity risk management.

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date. The Group's internal management reported the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

If the interest rate increases/decreases by 1%, the Group' s net income will decrease/increase by $3,448 and $1,937 for the year ended December 31, 2017 and 2016, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's borrowing in variable rate.

(5) Fair value of financial instruments

(a) The kinds of financial instruments and fair value

In 2016, the Group didn't engage in trading of derivative financial product. The Group had signed a FX Swap contract with Citibank. The notional principal is USD 2 million and maturity date is 11 August, 2017. The FX Swap had been settled before 31 December, 2017.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It shall not include fair value information of the financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value and investments in equity instruments which do not have any quoted price in an active market in which the fair value cannot be reasonably measured.

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2017				
		Fair Value			
	Book value	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets current	198,460	198,460	-	-	198,460
Available-for-sale financial assets noncurrent	4,050	4,050	-	-	4,050
Financial asset at cost (recognized as other non-current assets)	45	-	-	-	-
Loans and receivables					
Cash and cash equivalents	3,926,890	-	-	-	-
Notes receivable	156,038	-	-	-	-
Accounts receivable	2,409,665	-	-	-	-
Other receivables	110,562	-	-	-	-
other current financial assets	222,630	-	-	-	-
Total	$ 7,028,340	202,510	-	-	202,510
Financial liabilities at amortized cost through					
Short-term loans	$ 344,806	-	-	-	-
Notes payable	220,246	-	-	-	-
Accounts payable	2,627,433	-	-	-	-
Accounts payable-related parties	381	-	-	-	-
Other accrued expenses	83,373	-	-	-	-
Total	$ 3,276,239	-	-	-	-

	December 31, 2016				
		Fair Value			
	Book value	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets current	202,046	202,046	-	-	202,046
Available-for-sale financial assets noncurrent	3,960	3,960	-	-	3,960
Financial asset at cost (recognized as other non-current assets)	45	-	-	-	-
Loans and receivables					
Cash and cash equivalents	2,553,478	-	-	-	-
Notes receivable	95,956	-	-	-	-
Accounts receivable	2,350,980	-	-	-	-
Other receivables	30,082	-	-	-	-
Other accrued expenses	167,513	-	-	-	-
Total	$ 5,404,060	206,006	-	-	206,006
Financial liabilities at amortized cost through					
Short-term loans	$ 193,680	-	-	-	-
Notes payable	235,806	-	-	-	-
Accounts payable	2,084,077	-	-	-	-
Accounts payable-related parties	118	-	-	-	-
Other accrued expenses	44,733	-	-	-	-
Total	$ 2,558,414	-	-	-	-

(Continued)

(b) Fair value valuation technique of financial instruments measured at fair value

Financial instruments traded in active markets are based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as basis to determine the fair value of the listed companies' equity instrument and debt instrument of the quoted price in an active market.

If quoted price of a financial instrument can be obtained in time and often from exchanges, brokers, underwriters, industrial union, pricing institute, or regulators and such price can reflect those actual trading and frequently happen in the market, then the financial instrument is considered to have quoted price in active market. If a financial instrument does not accord with the definition aforementioned, then it is considered to be without quoted price in active market. In general, market with low trading volume or high bid-ask spreads is an indication of non-active market.

The Group's financial instruments are broken down by the category and attributes of their fair value as follows if such financial instruments are traded in active markets: beneficiary securities－open-end fund and emerging stock, whose fair value was determined based on market quoted prices.

There were no transfers from one level to another for the year ended December 31, 2017 and 2016.

(v) Financial risk management

(i) Overview

The Group is exposed to the following risks due to its use in financial instruments:

(1) Credit risk

(2) Liquidity risk

(3) Market risk

This note discloses the exposure risk information, and the Group's objectives, policies and procedures of measuring and managing risks. For more quantitative disclosure information, please refer to notes of the financial statements.

(ii) Risk management framework

The Group’s finance department provides business services for the overall internal department. It coordinates the domestic and international financial market operations, and supervises and manages financial risks related to the Group’s operation based on internal risk report about exposure to risk with the analysis of the extent and width of risk. Operation of derivative financial instruments is subject to the policy approved by the Board of Directors, which is documented based on exchange rate risk, interest risk, credit risk, operation of derivative and non-derivative financial instruments and investment in the remaining current capital. The internal auditors of the Group continue with the review of the compliance with the policy and the extent of the exposure to risk. The Group has no transactions in financial instruments (including derivative financial instruments) for the purpose of speculation.

The Group’s audit committee oversees how management monitors compliance with the Group’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to risks faced by the Group. The internal auditors assist the Group’s audit committee in oversight, maintain control on risk management and procedures of both regular and exceptional reviews, and report the review results to the audit committee.

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to financial instruments fails to meet its contractual obligations that arise principally from the Group’s accounts receivable, investments in securities and financial guarantees.

(1) Accounts receivable

The Group goes through the process of credit assessment on the trading parties pertaining to company size, industry perspective and general impression from the same industry before transaction begins. The engineering department also conducts an on-site interview, and the finance department will check to financial institutions for any abnormal dishonored check. The engineering department also establishes credit lines for each client, and updates the credit lines on a timely basis to reduce the transaction risk. The Group follows every uncollected receivable monthly. The administrative and the engineering department are responsible for gaining understandings about the overdue receivables and their anticipated date of collection, gaining understandings about clients’ financial position, negotiations with the clients or demanding pledges or installment payment.

(2) Investment

The credit risk exposure in the bank deposits, fixed income investments and open-end fund investments are measured and monitored by the Group’s finance department. Since, the Group deals with banks and other external parties with good credit standing, the Group believes that there is no significant impact on credit risk.

(3) Guarantee

The Group’s policy stated that financial guarantee may be rendered to subsidiaries and trading parties running construction business.

(Continued)

(iv) Liquidity risk

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows.

(v) Market risk

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

(1) Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the US Dollars (USD) and Chinese Yuan (CNY) as well.

(2) Interest rate risk

The Group borrows funds on fixed and variable interest rates, which has risk exposure to changes in fair value and cash flow. Therefore, the Group manages the interest risk by maintaining the fixed and variable interest rates with a proper portfolio. The Group will assess the hedging activities for consistent interest rates within its risk preferences and use the most cost-effective hedging strategy on a regular basis.

(w) Capital management

The Group meets its objectives for managing capital to safeguard the capacity to continue to operate and provide a return on shareholder; also, to benefit other related parties, as well as to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares or sell assets to settle any liabilities.

The Group and other entities in the similar industry use the debt-to-equity ratio to manage capital. This ratio uses the total net debt to be divided by the total capital. The net debt from the balance sheet is derived from the total liabilities, less, cash and cash equivalents. The total capital and equity include share capital, capital surplus, retained earnings and other equity plus net debt.

(Continued)

The Company's debt to capital ratios at the balance sheet date were as follows:

	December 31, 2017	December 31, 2016
Total liabilities	$ 6,889,250	5,503,427
Less: cash and cash equivalents	(3,926,890)	(2,553,478)
Net debt	$ 2,962,360	2,949,949
Total equity	3,874,293	3,063,125
Total capital	**$ 6,836,653**	**6,013,074**
Debt to capital ratio	**43.33%**	**49.06%**

Management believes that there were no changes in the Group's approach to capital management for the year ended December 31, 2017.

(7) Related-party transactions:

(a) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

Name of related party	Relationship with the Group
Johnwell Ent Co.,Ltd	The key management personnel of the parent company's directors

(b) Other related party transactions

Construction cost, and related assets and liabilities:

The amounts of significant purchase transactions and outstanding payables for goods and equipments between the Group and related parties were as follows:

	Purchases		Payables to Related Parties	
	2017	2016	December 31, 2017	December 31, 2016
Entity under the key management's control	**$ 1,475**	**1,406**	**381**	**118**

The purchase price and terms of the payments present no significant difference from those with third-party vendors.

(c) Key management personnel compensation

	2017	2016
Short-term employee benefits	$ 64,788	44,147
Post-employment benefits	309	233
Share based payments	8,228	14,679
	$ 73,325	**59,059**

(Continued)

For details of the related share based payments, please refer to Note p.

(8) Pledged assets:

The Group's pledged assets were as follows:

Asset	Purpose of pledge	December 31, 2017	December 31, 2016
Other financial assets－current:			
Time deposit	Construction contract fulfillment and warranty guarantee	$ 62,530	71,133

(9) Significant commitments and contingencies:

Significant commitments and contingencies for the Group as of December 31, 2017, and 2016 were as follows:

(a) Fulfillment and warranty guarantee (excluding related parties) for engaging in construction contracts amounted to $1,229,305 and $556,231, respectively.

(b) Bank pledges for engaging in construction contracts amounted to $681,859 and $923,107, respectively.

(c) Contract fulfillment guarantee and warranty guarantee (excluding related parties) for the competitive corporations amounted to $445,866 and $564,828, respectively.

(d) For already-signed but not-yet-finished significant construction contracts, please refer to note 6 (d).

(e) The Company has 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 a compensation amounting to $42,189 at the Taipei District Court. The civil judgment of the first instance during December, 2015 has been pronounced by the Taipei District Court, requiring the Company pay $14,666 to Walsin, which has been fully recognized as loss by the Company on 2015. The Company has appealed to Taiwan High Court and sent identification data to Architecture Construction. As of December 31, 2017, the compensation remained $8,376 payable, and has been recognized as other current liabilities and accrued expenses.

(f) The Company's subsidiary, Nova Tech, contracted to constructions of gas factory expansion and new factory with Jing He Science Co., Ltd. (Jing He). For installation of process equipment and pipeline, Nova Tech was responsible for installing the process pipelines and purchasing process equipment according with the design layout or purchase order provided by Jing He. Hereafter, Jing He had changed the design layout which resulted in extra work. Nova Tech requested Jing He for additional contract payment. Jing He argued that the contract is a lump-sum contract. Therefore, Jing He refused any additional payment and terminated the contract unilaterally right before the construction completed. Nova Tech has sued Jing He for related contract payment. Nova Tech has appointed an attorney as an agent. The case has been in trial and the district court has appointed Taiwan Association of Construction and Development and Taiwan Professional Electrical Engineers Association to valuing the completed part of new factory building. Nova Tech and Jing He has provided supplement opinions for the preliminary valuation and the supplement identification report has finished. Besides, the district court has appointed Taiwan Construction Research Institute to valuing the gas factory expansion construction and Taiwan Construction Research Institute maintained original identification result. Up to the issuance date of this financial statements, Nova Tech was not able to predict the judgment of the court and amount of compensation. However, Nova Tech has appropriately recognized allowance for impairment of incurred construction cost in accordance with related accounting standards. Nova Tech estimated the maximum loss for this lawsuit. The maximum impact to financial statements is a loss of 70 million. Jing He paid 10,500 for partial of construction payment and interest to Nova Tech on February 5, 2017.

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018. This increase does not affect the amounts of the current or deferred income taxes recognized on December 31, 2017. However, it will increase the Group's current tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences and tax losses recognized on December 31, 2017, the deferred tax assets and deferred tax liabilities would increase by $9,418 and $42,367, respectively.

(12) Other:

(a) The employee benefits, depreciation and amortization expenses categorized by function were as follows:

By item	2017			2016		
	Operating costs	**Operating expense**	**Total**	**Operating costs**	**Operating expense**	**Total**
Employee benefit						
Salary	592,493	376,610	969,103	519,596	303,081	822,677
Labor, health and social insurance	57,423	27,457	84,880	54,708	29,196	83,904
Pension	16,705	5,901	22,606	16,699	6,584	23,283
Other	18,511	18,127	36,638	16,747	17,612	34,359
Depreciation	2,863	17,085	19,948	2,145	18,940	21,085
Amortization	585	5,577	6,162	119	6,718	6,837

Note: Depreciation for investment property for the year ended December 31, 2017 and 2016 was $2,487 and $510, respectively, and was recorded in non-operating expense.

(13) Segment information:

(a) General information

There are three reportable segments of the Group: Taiwan, Mainland China, and other Asian countries. The Taiwan segment provides engineering, maintenance, sales and other services in Taiwan area. The Mainland China segment provides engineering services and sales in Mainland China. The other Asian segment provides engineering services in Vietnam, Singapore, Malaysia and other Asian countries.

The reportable 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.

(b) Information on reportable segment profit or loss, segment assets, segment liabilities, and their measurement and reconciliations

The Group uses the segmented net income from the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The Group has allocated income tax expense (benefit) or extraordinary gain or losses to reportable segments. In addition, profit or loss from all reportable segments includes significant non-cash items excluding depreciation and amortization. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are similar to the ones described in Note 4 "significant accounting policies". The Group's income from operating segment is measured by net income, and is referred to as the basis of performance evaluation.

The Group's operating segment information and reconciliation are as follows:

2017	**Taiwan**	**Mainland China**	**Other Asian**	**Adjustments and eliminations**	**Total**
Revenue:					
Revenue from external customers	$6,547,775	4,224,415	665,492	-	11,437,682
Intersegment revenues	79,448	251,032	-	(330,480)	-
Interest revenue	8,047	12,231	3,490	(4,430)	19,338
Total revenue	$6,635,270	4,487,678	668,982	(334,910)	11,457,020
Interest expense	(1,187)	(10,938)	(1,801)	4,457	(9,469)
Depreciation and amortization	(13,395)	(13,211)	(1,991)	-	(28,597)
Share of gain (loss) of associates accounted for using equity method	852,491	5,508	150,266	(1,008,273)	(8)
Reportable segment profit or loss	**572,690**	**345,034**	**65,572**	**(1,156)**	**982,140**
Asset:					
Investment accounted for using equity method	3,420,666	8,270	1,197,369	(4,625,509)	796
Capital expenditures of noncurrent assets	17,415	15,416	887	-	33,718
Reportable segment asset	**9,438,989**	**5,350,917**	**1,715,752**	**(4,951,887)**	**11,553,771**
Reportable segment liability	**3,182,608**	**3,786,798**	**246,242**	**(326,398)**	**6,889,250**

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2016	Taiwan	Mainland China	Other Asian	Adjustments and eliminations	Total
Revenue:					
Revenue from external customers	$5,312,695	2,674,686	417,040	-	8,404,421
Intersegment revenues	51,357	15,462	-	(66,819)	-
Interest revenue	4,077	5,662	2,500	(3,165)	9,074
Total revenue	$5,368,129	2,695,810	419,540	(69,984)	8,413,495
Interest expense	(414)	(4,492)	(1,557)	3,210	(3,253)
Depreciation and amortization	(10,903)	(14,965)	(2,564)	-	(28,432)
Share of gain (loss) of associates accounted for using equity method	492,928	(8,052)	(78,431)	(406,679)	(234)
Reportable segment profit or loss	**277,478**	**130,061**	**47,470**	**(1,147)**	**453,862**
Asset:					
Investment accounted for using equity method	2,497,596	23,481	1,062,907	(3,583,107)	877
Capital expenditures of noncurrent assets	9,967	16,127	4,182	-	30,276
Reportable segment asset	**7,611,960**	**3,980,670**	**1,437,351**	**(4,145,918)**	**8,884,063**
Reportable segment liability	**3,163,015**	**2,705,156**	**154,684**	**(519,428)**	**5,503,427**

(c) Information about the products and services

Revenue from external customers was as follows:

	2017	2016
Clean room construction	$ 5,894,065	3,717,823
High-tech equipment materials sales and service business	2,702,823	1,808,632
Gas and chemical supply system engineering	1,058,762	1,299,243
Others	1,782,032	1,578,723
	$ 11,437,682	**8,404,421**

(d) Geographical information

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

Area	2017	2016
Revenue from external customers:		
Taiwan	$ 6,547,775	5,312,695
Mainland China	4,224,415	2,674,686
Other countries	665,492	417,040
	$ 11,437,682	**8,404,421**

ACTER CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Area	December 31, 2017	December 31, 2016
Non-current assets:		
Taiwan	$ 543,062	540,197
Mainland China	158,977	132,909
Other countries	3,639	4,627
	$ 705,678	**677,733**

Non-current assets include property, plant and equipment, investment property, intangible assets, long-term prepaid rents and other assets.

(e) Information on significant customers

As of December 31, 2017 and 2016, none of the sales to the Group’s external single customer exceeds 10% of the total revenue.