INTELLIEPI INC. (CAYMAN) AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2019 AND 2018

pwc 資誠

Report of Independent Accountants

To the Board of Directors and Shareholders of IntelliEPI Inc. (Cayman)

Opinion

We have audited the accompanying consolidated balance sheets of IntelliEPI Inc. (Cayman) and its subsidiaries (the "Group") as at December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the 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 for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

Impairment assessment of property, plant and equipment

Description

Please refer to Notes 4(11) and (14) for accounting policies on acquisition and subsequent measurement of property, plant and equipment, Note 5 for the uncertainty of accounting estimates and assumptions, and Note 6(5) for details of property, plant and equipment.

資誠聯合會計師事務所 PricewaterhouseCoopers, Taiwan
11012 臺北市信義區基隆路一段 333 號 27 樓
27F, No. 333, Sec. 1, Keelung Rd., Xinyi Dist., Taipei 11012, Taiwan
T: +886 (2) 2729 6666, F:+ 886 (2) 2729 6686, www.pwc.tw

As of December 31, 2019, the carrying value of property, plant and equipment of was NT$1,066,486 thousand (70% of total assets) which were mainly held by Intelligent Epitaxy Technology, Inc. (IET-US), the subsidiary of the Group, and the amount was material to the financial statements. The impairment assessment involves several assumptions such as determination of discount rates and the use of cash flow projections covering a five-year period for estimating future cash flows. As the estimates are subject to management's judgement and invloves uncertainty, the recoverable amount and the impairment loss may be significantly affected. Thus, we consider the impairment assessment of property, plant and equipment of IET-US a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

A. We assessed the methodology used by management in estimating future cash flows, and ascertained whether the cash flows for the next 5 years are consistent with the budget approved by the Board of Directors and are in line with the Group's long-term objectives;

B. We discussed with management the current operations of the Group and compared actual performance against the budget to assess the management's intention and ability of plan execution;

C. We assessed the reasonableness of assumptions used with respect to expected growth rates and discount rates in assessing impairment valuation, including procedures as follows:

   (a) We compared expected growth rates with historical data, economic and industrial forecasts;

   (b) We compared discount rate with rate of returns of similar assets in the market, and examined the cost of capital assumptions of each cash generating unit, including comparing the weighted average cost of capital with that in the industry, as well as cost of equity capital with the Beta coefficient of the industry and market risk premium; and

   (c) We examined the setting of parameters and formula used in performing the impairment assessment.

D. We assessed the future cash flow sensitivity analysis prepared by management based on the assumptions used with respect to expected growth rates and discount rates, and confirming whether management has considered the potential impact of reasonably possible changes in these key assumptions.

Accuracy of income tax calculation

Description

Please refer to Note 4(21) for accounting policies on income tax, and Note 6(20) for details of income tax.

pwc 資誠

The main operating entity of the Group is the subsidiary, IET-US, an American company. Under U.S. tax laws, the Internal Revenue Service (IRS) also considers the parent company, IET-Cayman, an American company. Thus, IET-US and IET-Cayman are required to file a joint tax return with the IRS. Management needs to calculate and recognize tax effects based on the tax laws substantively enacted at the balance sheet date.

Given the differences in the tax laws between the U.S. and Taiwan, and that the Group is required to comply with the provisions of the Alternative Minimum Tax in the U.S., the tax calculation was complex. Thus, we consider the accuracy of income tax calculation a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

A. We assessed the accuracy of parameters used in income tax calculation table and basic income tax calculation table, verified the parameters against the records, discussed operations with management, and assessed the completeness of aforementioned calculation tables;

B. We checked whether the income tax was consistently calculated and recognized in accordance with the U.S. income tax laws;

C. We obtained the latest supporting documents pertaining to payments to, and receipts from, tax authority, compared the difference between estimates of prior period and actual amount filed, checked whether there was any investigation and adjustment by tax authority, and assessed whether the difference adjustment, if any, was appropriate; and

D. We obtained relevant correspondences with the tax authority to determine whether there are any matters that will impact the tax calculation and ascertain whether these items have been properly considered and presented.

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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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, including audit committee, 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 ROC GAAS 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 ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

A. 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.

B. 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.

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

D. 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 auditor's 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.

E. 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.

pwc 資誠

F. 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 auditor's 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.

Wendy Liang　　　　Vincent Lien

For and on behalf of PricewaterhouseCoopers, Taiwan

March 25, 2020

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

INTELLIEPI INC. (CAYMAN) AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	2019 Amount	2019 %	2018 Amount	2018 %
	Current assets					
1100	Cash	6(1)	$ 91,996	6	$ 126,890	8
1136	Current financial assets at amortized cost	6(2)	74,950	5	-	-
1170	Accounts receivable, net	6(3)	87,070	6	66,274	4
1200	Other receivables		1,939	-	120	-
130X	Inventories, net	6(4)	154,834	10	163,653	11
1410	Prepayments		20,475	1	31,542	2
1479	Other current assets		171	-	236	-
11XX	**Total current assets**		431,435	28	388,715	25
	Non-current assets					
1600	Property, plant and equipment	6(5)	1,066,846	70	1,122,305	73
1755	Right-of-use assets	6(6)	7,235	-	-	-
1780	Intangible assets	6(7)	13,892	1	23,408	2
1900	Other non-current assets	6(8)	15,511	1	6,106	-
15XX	**Total non-current assets**		1,103,484	72	1,151,819	75
1XXX	**Total assets**		$ 1,534,919	100	$ 1,540,534	100
	Liabilities and Equity					
	Current liabilities					
2130	Current contract liabilities	6(14)	$ 2,035	-	$ 5,997	-
2170	Accounts payable		23,005	2	21,694	2
2200	Accrued expenses and other payables	6(9)	33,836	2	36,801	2
2230	Income tax payable		11	-	-	-
2280	Lease liabilities		1,486	-	-	-
21XX	**Total current liabilities**		60,373	4	64,492	4
	Non-current liabilities					
2570	Deferred income tax liabilities	6(20)	5,199	-	12,840	1
2580	Non-current lease liabilities		6,439	1	-	-
25XX	**Total non-current liabilities**		11,638	1	12,840	1
2XXX	**Total liabilities**		72,011	5	77,332	5
	Equity attributable to owners of parent					
	Share capital					
3110	Common share	6(11)	365,355	24	362,355	24
	Capital surplus	6(10)(12)				
3200	Capital surplus		622,415	40	607,505	39
	Retained earnings	6(13)				
3310	Legal reserve		84,065	6	78,929	5
3350	Unappropriated retained earnings		419,373	27	391,481	25
	Other equity					
3400	Other equity		(28,958)	(2)	22,315	2
31XX	**Equity attributable to owners of the parent**		1,462,250	95	1,462,585	95
36XX	**Non-controlling interest**		658	-	617	-
3XXX	**Total equity**		1,462,908	95	1,463,202	95
	Significant contingent liabilities and unrecognized contract commitments	8				
	Significant event after the balance sheet date	9				
3X2X	**Total liabilities and equity**		$ 1,534,919	100	$ 1,540,534	100

The accompanying notes are an integral part of these consolidated financial statements.

INTELLIEPI INC. (CAYMAN) AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

	Items	Notes	2019 Amount	2019 %	2018 Amount	2018 %
4000	**Operating revenue**	6(14)	$ 712,348	100	$ 650,044	100
5000	**Operating costs**	6(4)(14)(15)	(474,589)	(67)	(417,952)	(64)
5950	**Net gross profit**		237,759	33	232,092	36
	Operating expenses	6(15)(16)				
6100	Selling expenses		(6,117)	(1)	(6,983)	(1)
6200	General and administrative expenses		(118,356)	(16)	(120,121)	(19)
6300	Research and development expenses		(34,866)	(5)	(43,705)	(7)
6450	(Impairment loss) reversal of impairment loss determined in accordance with IFRS 9	10(4)	(162)	-	211	-
6000	**Total Operating Expenses**		(159,501)	(22)	(170,598)	(27)
6900	**Operating income**		78,258	11	61,494	9
	Non-operating income and expenses					
7010	Other income	6(17)	2,713	-	1,219	-
7020	Other gains and losses	6(18)	(3,963)	-	(3,211)	-
7050	Finance costs	6(19)	(482)	-	-	-
7000	**Total non-operating income and expenses**		(1,732)	-	(1,992)	-
7900	**Profit before income tax, net**		76,526	11	59,502	9
7950	Income tax expense	6(20)	(7,221)	(1)	(8,101)	(1)
8200	**Profit for the year**		$ 69,305	10	$ 51,401	8
	Other comprehensive income, net					
	Other comprehensive (loss) income that will not be reclassified to profit or loss					
8361	Cumulative translation differences of foreign operations		($ 36,264)	(5)	$ 47,597	7
8500	**Total comprehensive income for the year**		$ 33,041	5	$ 98,998	15
	Profit attributable to:					
8610	Owners of the parent		$ 69,264	10	$ 51,361	8
8620	Non-controlling interest		41	-	40	-
	Total		$ 69,305	10	$ 51,401	8
	Comprehensive income attributable to:					
8710	Owners of the parent		$ 33,000	5	$ 98,958	15
8720	Non-controlling interest		41	-	40	-
	Total		$ 33,041	5	$ 98,998	15
	Earnings per share					
9750	**Basic earnings per share (in New Taiwan dollars)**	6(21)	$ 1.90		$ 1.42	
9850	**Diluted earnings per share (in New Taiwan dollars)**	6(21)	$ 1.90		$ 1.42	

The accompanying notes are an integral part of these consolidated financial statements.

INTELLIEPI INC. (CAYMAN) AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

		Equity attributable to owners of the parent											
			Capital surplus				Retained earnings		Other equity				
	Notes	Common share	Paid-in capital in excess of par value	Treasury share trading	Employee stock options	Restricted stock to employees	Legal reserve	Unappropriated retained earnings	Cumulative translation differences of foreign operations	Unearned compensation	Total	Non-controlling interest	Total equity
2018													
Balance at January 1, 2018		$ 361,355	$ 584,393	$ 1,141	$ 18,281	$ -	$ 66,112	$ 425,384	($ 20,731)	$ -	$ 1,435,935	$ 577	$ 1,436,512
Adjustments relating to first adoption of IFRS 9		-	-	-	-	-	-	(176)	-	-	(176)	-	(176)
Balance at January 1 after adjustments		361,355	584,393	1,141	18,281	-	66,112	425,208	(20,731)	-	1,435,759	577	1,436,336
Profit for the year		-	-	-	-	-	-	51,361	-	-	51,361	40	51,401
Other comprehensive income for the year		-	-	-	-	-	-	-	47,597	-	47,597	-	47,597
Total comprehensive income for the year		-	-	-	-	-	-	51,361	47,597	-	98,958	40	98,998
Appropriations of 2017 earnings													
Legal reserve		-	-	-	-	-	12,817	(12,817)	-	-	-	-	-
Cash dividends	6(13)	-	-	-	-	-	-	(72,271)	-	-	(72,271)	-	(72,271)
Restricted stock to employees	6(10)	1,000	-	-	-	3,690	-	-	-	(4,551)	139	-	139
Balance at December 31, 2018		$ 362,355	$ 584,393	$ 1,141	$ 18,281	$ 3,690	$ 78,929	$ 391,481	$ 26,866	($ 4,551)	$ 1,462,585	$ 617	$ 1,463,202
2019													
Balance at January 1, 2019		$ 362,355	$ 584,393	$ 1,141	$ 18,281	$ 3,690	$ 78,929	$ 391,481	$ 26,866	($ 4,551)	$ 1,462,585	$ 617	$ 1,463,202
Profit for the year		-	-	-	-	-	-	69,264	-	-	69,264	41	69,305
Other comprehensive income for the year		-	-	-	-	-	-	-	(36,264)	-	(36,264)	-	(36,264)
Total comprehensive income for the year		-	-	-	-	-	-	69,264	(36,264)	-	33,000	41	33,041
Appropriations of 2018 earnings													
Legal reserve		-	-	-	-	-	5,136	(5,136)	-	-	-	-	-
Cash dividends	6(13)	-	-	-	-	-	-	(36,236)	-	-	(36,236)	-	(36,236)
Restricted stock to employees	6(10)	3,000	-	-	-	14,910	-	-	-	(15,009)	2,901	-	2,901
Balance at December 31, 2019		$ 365,355	$ 584,393	$ 1,141	$ 18,281	$ 18,600	$ 84,065	$ 419,373	($ 9,398)	($ 19,560)	$ 1,462,250	$ 658	$ 1,462,908

The accompanying notes are an integral part of these consolidated financial statements.

INTELLIEPI INC. (CAYMAN) AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax for the year		$ 76,526	$ 59,502
Adjustments to reconcile income before tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Depreciation	6(5)(6)	72,313	60,575
Amortization	6(7)	9,479	9,309
Compensation cost of share-based payment	6(10)	2,901	139
Loss on disposal of property, plant and equipment	6(18)	2,961	4,004
Interest income	6(17)	(2,601)	(1,206)
Interest expense	6(4)(19)	482	-
Allowance (Reversal) for uncollectible accounts	10(4)	162	(211)
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Accounts receivable		(22,554)	59,155
Inventories		6,859	612
Prepayments		610	(15,711)
Other receivables		(214)	325
Other current assets		59	(32)
Net changes in liabilities relating to operating activities			
Accounts payable		1,834	(14,071)
Contract liabilities		(3,817)	5,997
Accrued expenses and other payables		(2,079)	(10,983)
Unearned revenue		-	(4,583)
Cash provided by operations		142,921	152,821
Income tax paid		(3,969)	(12,759)
Interest paid		(482)	-
Interest received		962	1,206
Net cash provided by operating activities		139,432	141,268
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	6(23)	(80,236)	(124,513)
Acquisition of intangible assets	6(7)	(249)	-
Increase in current financial assets at amortized cost	6(2)	(74,950)	-
Proceeds from government grants	6(5)(23)	29,930	19,702
Proceeds from disposal of property, plant and equipment		-	59
Increase in other non-current assets		(9,552)	(215)
Net cash used in investing activities		(135,057)	(104,967)
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease principle repayment		(633)	-
Cash dividends paid	6(13)	(36,236)	(72,271)
Net cash used in financing activities		(36,869)	(72,271)
Effect of exchange rate changes on cash		(2,400)	23,757
Decrease in cash		(34,894)	(12,213)
Cash at beginning of year		126,890	139,103
Cash at end of year		$ 91,996	$ 126,890

The accompanying notes are an integral part of these consolidated financial statements.

INTELLIEPI INC. (CAYMAN) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

IntelliEPI Inc. (Cayman) (the "Company" or "IET Cayman") was incorporated as a company limited by shares under the provisions of the Company Law of the Cayman Islands on April 26, 2011. On May 31, 2011, the Company became the holding company of Intelligent Epitaxy Technology, Inc. ("IET-US") and acquired IET-US's total shares using an exchange ratio of a 1.5:1 in order to apply for listing on the Taipei Exchange. The operational activities of the Company and its subsidiaries (collectively referred herein as the "Group") include production and sales of epitaxy wafers providing the semiconductor industry with wireless and satellite communications.

The Company's shares were listed on the Taipei Exchange and started trading on July 24, 2013.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on March 25, 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments as endorsed by FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

A. IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the ‘modified retrospective approach’) when applying “IFRSs” effective in 2019 as endorsed by the FSC. Accordingly, the Group increased ‘right-of-use asset’ and ‘lease liability’ both by $8,726 with respect to the lease contracts of lessees on January 1, 2019.

C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:

(a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.

(b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

(c) The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense of $1,081 was recognized in 2019.

(d) The exclusion of initial direct costs for the measurement of ‘right-of-use asset’.

(e) The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(f) The adjustment of the ‘right-of-use asset’ by the amount of any provision for onerous leases.

D. The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate of 5.5%.

E. The Group recognized lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate and lease liabilities recognized as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	$ 4,644
Less: Short-term leases	(1,687)
Add: Adjustments as a result of a different treatment of extension and termination options	$ 8,141
Total lease contracts amount recognized as lease liabilities by applying IFRS 16 on January 1, 2019	$ 11,098
Incremental borrowing interest rate at the date of initial application	5.5%
Lease liabilities recognized as at January 1, 2019 by applying IFRS 16	$ 8,726

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2020 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendments to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, 'Interest rate benchmark reform'	January 1, 2020

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2022

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

A. Except for the financial assets or financial liabilities (including derivative instruments) at fair value through profit or loss, the consolidated financial statements have been prepared under the historical cost convention.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)	
			December 31, 2019	December 31, 2018
The Company	Intelligent Epitaxy Technology, Inc. (IET-US)	Manufacturing and selling epitaxy	100%	100%
IET-US	IntelliEPI China, Ltd. (IET-China)	Provision of research and development service for semiconductor materials, and technical support services	100%	100%
	IntelliEPI Japan, Ltd. (IET-Japan)	Provision of sales assistance and technical support services	51%	51%
	IntelliEPI IR, Inc. (IET-IR)	Provision of semiconductor technical services	40% (Note)	40% (Note)

Note: IET-US holds 40% of the equity, and the remaining 60% is held by the management of the Group. Since IET-US has 100% of the rights of profit sharing, it has substantial control over IET IR.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Restrictions on fund remittance from subsidiaries to the parent company: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is the United States dollars (USD). However, as the Company's stocks are traded in the Taipei Exchange, these consolidated financial statements are presented in New Taiwan dollars (NTD).

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within ‘other gains and losses’.

B. Translation of foreign operations

The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the exchange rate at the dates of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

(c) All resulting exchange differences are recognized in other comprehensive income.

(5) <u>Classification of current and non-current items</u>

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be settle within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settle within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) <u>Financial assets at amortized cost</u>

A. Financial assets at amortized cost are those that meet all of the following criteria:

(a) The objective of the Group’s business model is achieved by collecting contractual cash flows.

(b) The assets' contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at amortized cost are recognized and derecognized using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognized in profit or loss when the asset is derecognized or impaired.

D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(7) Accounts receivable

A. Accounts receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortized cost, at each reporting date, the Group recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognizes the impairment provision for lifetime ECLs.

(9) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expired.

(10) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(11) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	5～40 years
Machinery and equipment	7～15 years
Computer equipment	3 years
Office equipment	5～7 years
Others	5 years

(12) Leasing arrangements (lessee)

Effective 2019 - right-of-use assets/ lease liabilities

A. Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognized as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of fixed payments, less any lease incentives receivable, and the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option. The Group subsequently measures the lease liability at amortized cost using the interest method and recognizes interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognized as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the amount of the initial measurement of lease liability. The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognized as an adjustment to the right-of-use asset.

Prior to 2019 - operating leases

Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(13) Intangible assets

A. Computer software

Computer software expenditures are stated at cost and amortized over the estimated life of 3 years using the straight-line method.

B. Know-how

Know-how which refers to process technology purchased externally is recognized at cost and amortized over 7 years using the straight-line method.

(14) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(15) Accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.

B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognized in profit or loss.

(17) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(18) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(19) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expense in that period when the employees render service.

B. Pensions - Defined contribution plans

The Group has a defined contribution pension plan. Net periodic pension costs are recognized as incurred.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(20) Employee share-based payment

A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

B. Restricted stocks:

(a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period.

(b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognizes the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declared.

(c) Employees do not need to pay to acquire restricted stocks. If employees resign during the vesting period, the restricted stocks will be deemed as unvested and lapsed. The Company will repurchase the restricted stocks without consideration and the restricted stocks will be retired. Employees are not required to return the dividend received.

(21) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities.

C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(22) Share capital

A. Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(23) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(24) Revenue recognition

A. Sales of goods

The Group manufactures and sells epitaxy wafers products. Revenue is measured at the fair value of the consideration received or receivable less business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. The Group recognizes revenue when the performance obligation has been satisfied after the delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B. Sales of services

The Group provides testing results and reports for specific manufacturing technology, and researches products with specified sizes. The Group recognizes revenue when the performance obligation has been satisfied after reaching appointed testing process, presenting written paper and/or delivering research and development finished goods for counterparties' inspection.

(25) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are presented by deducting the grants from the asset's carrying amount and are amortized to profit or loss over the estimated useful lives of the related assets as reduced depreciation expenses.

(26) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

(27) Change in accounting policy

In order to reflect the cost in a timely manner and improve overall operation efficiency, the Board of Directors resolved to change the inventory costing method from first in, first out (FIFO) to moving average method from January 1, 2019 during Board meeting on February 21, 2019. The change in accounting policy had no effect to the financial statement on January 1, 2018 and had no material effect to the statement of comprehensive income for the year ended December 31, 2018 and balance sheet on December 31, 2018.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. The above information is addressed below:

Critical accounting estimates and assumptions

Impairment assessment of property, plant and equipment

The Group assesses impairment based on its subjective judgement and determines the separate cash flows of a specific group of assets, involves many assumptions, including using annual forecast to estimate future cash flow based on expected sales growth rate, expense rate and discount rate. Any changes in economic circumstances or estimates due to the change of Group strategy might cause material impact on the impairment assessment in the future. The Group performed sensitivity analysis on growth rate, expense rate and discount rate to assess the impact on impairment assessment.

As of December 31, 2019, the carrying amount of property, plant and equipment was $1,066,846.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash

	December 31, 2019	December 31, 2018
Cash on hand and petty cash	$ 24	$ 110
Checking accounts and demand deposits	91,972	126,780
	$ 91,996	$ 126,890

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote. The Group's maximum exposure to credit risk at balance sheet date is the carrying amount of all cash.

B. The Group has no cash pledged to others.

(2) Financial assets at amortized cost

Items	December 31, 2019	December 31, 2018
Current items:		
Time deposits	$ 74,950	$ -

A. Amounts recognized in profit or loss in relation to financial assets at amortized cost are listed below:

	2019	2018
Interest income	$ 1,609	$ -

B. As at December 31, 2019 and 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at amortized cost held by the Group was $74,950 and $0, respectively.

(3) Accounts receivable

	December 31, 2019	December 31, 2018
Accounts receivable	$ 87,238	$ 66,286
Less: Allowance for uncollectible accounts	(168)	(12)
	$ 87,070	$ 66,274

A. The aging analysis of accounts receivable is as follows:

	December 31, 2019	December 31, 2018
Up to 30 days	$ 56,845	$ 46,432
31 to 90 days	26,595	17,413
91 to 180 days	3,798	2,441
	$ 87,238	$ 66,286

The above aging analysis was based on invoice date.

B. As of December 31,2019 and 2018, accounts receivable were all from contracts with customers.

C. The Group does not hold any collateral as security.

D. Information relating to credit risk of accounts receivable is provided in Note 10(4).

(4) Inventories

	December 31, 2019		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 128,534	($ 18,840)	$ 109,694
Work in progress	11,911	(116)	11,795
Finished goods	55,555	(22,210)	33,345
	$ 196,000	($ 41,166)	$ 154,834

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 126,983	($ 15,915)	$ 111,068
Work in progress	10,066	(1,579)	8,487
Finished goods	56,893	(12,795)	44,098
	$ 193,942	($ 30,289)	$ 163,653

The cost of inventories recognized as expense for the year:

	2019	2018
Cost of goods sold	$ 434,003	$ 385,961
Loss on decline in market value	12,024	10,390
	$ 446,027	$ 396,351

(5) Property, plant and equipment

	Land	Buildings and structures	Machinery and equipment	Computer equipment	Office equipment	Construction in progress	Others	Total
At January 1, 2019								
Cost	$ 38,009	$ 80,939	$ 962,810	$ 1,832	$ 308	$ 594,849	$ 255,071	$ 1,933,818
Accumulated depreciation	-	(66,461)	(737,403)	(1,379)	(159)	-	(6,111)	(811,513)
	$ 38,009	$ 14,478	$ 225,407	$ 453	$ 149	$ 594,849	$ 248,960	$ 1,122,305
2019								
Opening net book amount as at January 1	$ 38,009	$ 14,478	$ 225,407	$ 453	$ 149	$ 594,849	$ 248,960	$ 1,122,305
Additions	-	365	23,752	238	-	4,522	47,946	76,823
Government grants	-	-	-	-	-	(29,930)	-	(29,930)
Disposals	-	(79)	(3,093)	-	-	-	-	(3,172)
Transfer	-	583,152	90,984	-	6,925	(577,310)	(106,134)	(2,383)
Depreciation charge	-	(17,032)	(53,227)	(250)	(533)	-	(30)	(71,072)
Net exchange differences	(915)	(21,576)	(6,951)	(12)	208	7,869	(4,348)	(25,725)
Closing net book amount as at December 31	$ 37,094	$ 559,308	$ 276,872	$ 429	$ 6,749	$ -	$ 186,394	$ 1,066,846
At December 31, 2019								
Cost	$ 37,094	$ 638,575	$ 1,035,463	$ 1,714	$ 7,422	$ -	$ 187,889	$ 1,908,157
Accumulated depreciation	-	(79,267)	(758,591)	(1,285)	(673)	-	(1,495)	(841,311)
	$ 37,094	$ 559,308	$ 276,872	$ 429	$ 6,749	$ -	$ 186,394	$ 1,066,846

	Land	Buildings and structures	Machinery and equipment	Computer equipment	Office equipment	Construction in progress	Others	Total
At January 1, 2018								
Cost	$ 36,821	$ 76,615	$ 946,440	$ 1,994	$ 163	$ 557,790	$ 184,239	$ 1,804,062
Accumulated depreciation	-	(58,937)	(686,774)	(1,423)	(147)	-	(4,864)	(752,145)
	$ 36,821	$ 17,678	$ 259,666	$ 571	$ 16	$ 557,790	$ 179,375	$ 1,051,917
2018								
Opening net book amount as at January 1	$ 36,821	$ 17,678	$ 259,666	$ 571	$ 16	$ 557,790	$ 179,375	$ 1,051,917
Additions	-	1,860	17,491	420	138	17,888	63,541	101,338
Disposals	-	-	(4,644)	(14)	-	-	-	(4,658)
Transfer	-	-	(675)	(384)	-	-	(182)	(1,241)
Depreciation charge	-	(5,521)	(53,835)	(146)	(7)	-	(1,066)	(60,575)
Net exchange differences	1,188	461	7,404	6	2	19,171	7,292	35,524
Closing net book amount as at December 31	$ 38,009	$ 14,478	$ 225,407	$ 453	$ 149	$ 594,849	$ 248,960	$ 1,122,305
At December 31, 2018								
Cost	$ 38,009	$ 80,939	$ 962,810	$ 1,832	$ 308	$ 594,849	$ 255,071	$ 1,933,818
Accumulated depreciation	-	(66,461)	(737,403)	(1,379)	(159)	-	(6,111)	(811,513)
	$ 38,009	$ 14,478	$ 225,407	$ 453	$ 149	$ 594,849	$ 248,960	$ 1,122,305

A. None of the property, plant and equipment were impaired for both years.

B. The significant components of buildings and structures include main the plant, which are depreciated over 20 to 40 years.

(6) Lease arrangements - lessee

Effective 2019

A. The Group leases various assets including buildings as well as machinery and equipment. Rental contracts are made for periods from 2008 to 2022. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	December 31, 2019 Carrying amount	2019 Depreciation charge
Buildings	$ 1,527	$ 562
Machinery and equipment	5,708	679
	$ 7,235	$ 1,241

C. For the year ended December 31, 2019, the Group had no additions to right-of-use assets.

D. Information on profit or loss in relation to lease contracts is as follows:

	2019
Items affecting profit or loss	
Interest expense on lease liabilities	$ 482
Expense on short-term lease contracts	1,081

E. For the year ended December 31, 2019, the Group's total cash outflow for leases was $2,387.

(7) Intangible assets

	Software	Know-how	Total
At January 1, 2019			
Cost	$ 3,384	$ 61,440	$ 64,824
Accumulated amortization	(2,650)	(38,766)	(41,416)
	$ 734	$ 22,674	$ 23,408
2019			
At January 1	$ 734	$ 22,674	$ 23,408
Additions-acquired separately	249	-	249
Amortization charge	(646)	(8,833)	(9,479)
Net exchange differences	(8)	(278)	(286)
At December 31	$ 329	$ 13,563	$ 13,892
At December 31, 2019			
Cost	$ 2,647	$ 59,960	$ 62,607
Accumulated amortization	(2,318)	(46,397)	(48,715)
	$ 329	$ 13,563	$ 13,892

	Software	Know-how	Total
At January 1, 2018			
Cost	$ 3,278	$ 59,520	$ 62,798
Accumulated amortization	(1,881)	(29,052)	(30,933)
	$ 1,397	$ 30,468	$ 31,865
2018			
At January 1	$ 1,397	$ 30,468	$ 31,865
Amortization charge	(695)	(8,614)	(9,309)
Net exchange differences	32	820	852
At December 31	$ 734	$ 22,674	$ 23,408
At December 31, 2018			
Cost	$ 3,384	$ 61,440	$ 64,824
Accumulated amortization	(2,650)	(38,766)	(41,416)
	$ 734	$ 22,674	$ 23,408

None of the intangible assets were impaired for both years.

(8) Other non-current assets

	December 31, 2019	December 31, 2018
Prepayments for equipment	$ 15,511	$ 6,106

(9) Accrued expenses and other payables

	December 31, 2019	December 31, 2018
Property tax payable	$ 15,060	$ 17,812
Accrued professional fees	3,691	3,168
Accrued bonus for unused vacation	3,013	2,509
Bonus payable	2,506	-
Employee compensation payable	2,406	1,928
Payables on property, plant and equipment	2,006	5,419
Accrued remuneration to directors	1,201	482
Salaries payable	453	325
Others	3,500	5,158
	$ 33,836	$ 36,801

(10) Share-based payment

A. As of December 31, 2019, share-based payment arrangements of the Company and its subsidiaries are set forth below:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Employee stock options	March 27, 2013	84,000	10 years	1 month service for one forty-eighth, until 100%
Restricted stocks to employees	November 7, 2018	100,000	5 years	1 year service for one five, until 100%
Restricted stocks to employees	June 14, 2019	300,000	5 years	1 year service for one five, until 100%

Please refer to Note 6(11)C. for the restrictions of the restricted stocks issued by the Company. Employees do not need to pay to acquire restricted stocks. If employees resign during the vesting period, the restricted stocks will be deemed as unvested and lapsed. The Company will repurchase the restricted stocks without consideration and the restricted stocks will be retired. Employees are not required to return the dividend received.

The above share-based payment arrangements are settled by equity.

B. Details of the share-based payment arrangements are as follows:

	2019		2018	
	No. of options	Weighted-average exercise price (in USD)	No. of options	Weighted-average exercise price (in USD)
Options outstanding at January 1	22,751	$ 0.64	22,751	$ 0.64
Options forfeited	(22,501)	-	-	-
Options outstanding at December 31	250	0.64	22,751	0.64
Options exercisable at December 31	250	0.64	22,751	0.64

C. The expiry date and exercise price of stock options outstanding at balance sheet date are as follows:

		December 31, 2019		December 31, 2018	
Issue date approved	Expiry date	No. of shares	Exercise price (in USD)	No. of shares	Exercise price (in USD)
March 27, 2013	March 26, 2023	250	$ 0.64	22,751	$ 0.64

D. The fair value of stock options granted on grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Valuation currency	Grant date	Fair value of stock options per unit (in USD) (Note)	Exercise price per share (in USD)	Expected price volatility (Note)	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit (in USD)
Employee stock options	USD	March 27, 2013 (Note)	$ 1.42	$ 0.64	52.74%	6.25 years	2%	1.048%	$ 0.8373

Note: As the Company was not yet a listed company at the grant date of the above share-based payments, the Company used historical stock price of similar companies as basis. The Company estimates expected volatility based on expected duration of similar stock options as sample interval and standard deviation of return rate of similar companies.

E. The fair value of restricted stocks to employees were measured at the closing price of the Company's shares, $46.9 and $59.7 dollars per share, on grant date, November 7, 2018 and June 14, 2019, respectively.

F. Expenses incurred on share-based payment transactions are shown below:

	2019	2018
Equity-settled	$ 2,901	$ 139

(11) Share capital

A. As of December 31, 2019, the Company's authorized capital was $400,000, consisting of 40 million shares of common stock, and the paid-in capital was $365,355 with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows:

	2019	2018
At January 1	36,235,543	36,135,543
Restricted stock to employees	300,000	100,000
At December 31	36,535,543	36,235,543

B. As March 25, 2020, the Board of Directors resolved to purchase 1,500 thousand treasury shares to be reissued to the employees and the ceiling of expected purchase amount is $90,000.

C. The Board of Directors during their meeting resolved to issue restricted stocks to employees on March 27, 2018. The Company planned to issue 400 thousand shares of restricted stocks with par value of $10 dollars. The shareholders during their meeting on June 27, 2018 resolved the issuance of restricted stocks to employees. The plan of restricted stocks to employees have been approved by Financial Supervisory Commission and were effected on September 10, 2018. The base date of the first round of restricted stocks to employees was November 7, 2018 with the issuance of 100 thousand shares. The base date of the second round of restricted stocks to employees was May 8, 2019 with the issuance of 300 thousand shares. The shares were issued with $0 consideration per share and the issuance was completed on July 12, 2019. The rights and obligations to employees during vesting periods are as below:

(a) Employees may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted stocks to employees, excluding inheritance during vesting periods;

(b) Shareholders' voting rights is executed by the Trust Depository according to relevant laws and regulations; and

(c) For those who do not conform to the vested conditions, the dividends, bonuses, capital allocated to the capital reserve (stocks) are allocated to the Company, purchase rights and voting rights while cash capital increase are consistent with common stocks. The rights is executed by the Trust Depository according to relevant laws and regulations.

(12) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(13) Retained earnings

A. Under the Company's Articles of Incorporation, the current year’s earnings, if any, shall first be used to pay all taxes and offset prior years’ operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Any balance remaining may be distributed as dividends (including cash dividends or stock dividends) and after taking financial, business and operational factors into consideration, the amount of dividend distributed shall not be lower than 10% of profits (after tax) of the current year and the amount of cash dividends distributed thereupon shall not be less than 10% of the profits proposed to be distributed in the current year.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company’s paid-in capital.

C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

D. On June 28, 2019, the shareholders during their meeting resolved to distribute cash dividends of $36,236 ($1 dollar per share). The outstanding shares were increased to 36,536 thousand shares due to the issuance of 300 thousand restricted stocks to employees. On June 28, 2019, the Company announced to adjust dividend rate to $0.99178881 dollars per share for cash dividends. On June 27, 2018, the shareholders during their meeting resolved to distribute cash dividends of $72,271 ($2 dollars per share).

E. On March 25, 2020, the Board of Directors proposed for the distribution of cash dividends from the 2019 earnings in the amount of $36,536 ($1 dollars per share).

F. Please refer to Note 6(16) for details of employees’ compensation and directors’ remuneration.

(14) Operating revenue and cost

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services at a point in time in the following major types:

	2019	2018
Sales revenue	$ 688,985	$ 621,709
Service revenue	23,363	28,335
	$ 712,348	$ 650,044

	2019	2018
Cost of sales	$ 446,027	$ 396,351
Cost of services	28,562	21,601
	$ 474,589	$ 417,952

B. Contract balance

	December 31, 2019	December 31, 2018
Contract liabilities	$ 2,035	$ 5,997

Changes in contract liabilities are mainly from the timing difference between performance obligations satisfied and customers' payment.

Revenue recognized that was included in the contract liability balance at the beginning of the year:

	2019	2018
Revenue recognized that was included in the contract liability balance at the beginning of the year	$ 4,397	$ 4,511

(15) Expenses by nature

	2019			2018		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Cost of raw materials and supplies used	$ 224,603	$ -	$ 224,603	$ 194,193	$ -	$ 194,193
Employee benefit expense	111,133	81,105	192,238	117,820	75,850	193,670
Depreciation charges on property, plant and equipment	63,699	7,373	71,072	58,355	2,220	60,575
Depreciation charges on right-of-use assets	679	562	1,241	-	-	-
Amortization charges on intangible assets	9,350	129	9,479	9,170	139	9,309
Other expenses	65,125	70,332	135,457	38,414	92,389	130,803
	$ 474,589	$ 159,501	$ 634,090	$ 417,952	$ 170,598	$ 588,550

(16) Employee benefit expense

	2019			2018		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Wages and salaries	$ 86,129	$ 65,489	$ 151,618	$ 90,151	$ 63,375	$ 153,526
Restricted stock to employees	-	2,901	2,901	-	139	139
Insurance fees	24,169	11,608	35,777	25,759	10,014	35,773
Pension costs	500	604	1,104	1,610	1,592	3,202
Other personnel expenses	335	503	838	300	730	1,030
	$ 111,133	$ 81,105	$ 192,238	$ 117,820	$ 75,850	$ 193,670

Note: As of December 31, 2019 and 2018, the Group had 70 and 73 employees, respectively.

A. Please refer to Note 6(13) for details regarding distribution of retained earnings.

In accordance with the amendment of Taiwan Company Act Article 235-1 for distribution of employees' bonus and directors' remuneration, the Company amended the Articles of Incorporation accordingly. Based on the amended Articles of Incorporation, the Company shall reserve no less than 3% of its annual net income as employees' bonus, and no more than 3% of its annual net income as directors' remuneration, provided that the annual net income shall be used to offset against the Company's accumulated deficit first. Employee bonuses may be distributed in stock or cash, and its distribution may include certain qualified employees of the Company's subsidiaries. The distribution of employees' bonus and directors' remuneration shall be approved by the Board of Directors with attendance of at least two thirds of total directors and approval by a majority of attending directors, and be reported to the shareholders at the general meeting.

The amendment to the Articles of Incorporation has been approved by the Board of Directors on November 11, 2015 and the shareholders on June 24, 2016.

B. For the years ended December 31, 2019 and 2018, employees' compensation was accrued at $2,406 and $1,928, respectively; while directors' remuneration was accrued at $1,201 and $482, respectively. Aforementioned accruals were recognized as salary expenses.

The employees' compensation and directors' remuneration were estimated and accrued based on 3.0% and 1.5% of distributable profit of current year as of the end of reporting period. The employees' compensation and directors' remuneration resolved by the Board of Directors were $2,406 and $1,201, respectively, and the employees' compensation and directors' remuneration will be distributed in the form of cash. The actual distributed amounts were in agreement with the accrued amounts.

The difference between the amounts of the employees' compensation and directors' remuneration for 2018 resolved by the Board of Directors and the amounts recognized in the 2018 financial statements was immaterial and had been adjusted in the profit or loss in 2019.

Information about employees' compensation and directors' remuneration by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(17) Non-operating income and expenses

	2019	2018
Other income:		
Interest income	$ 2,601	$ 1,206
Others	112	13
	$ 2,713	$ 1,219

(18) Other gains and losses

	2019	2018
Loss on disposal of property, plant and equipment	($ 2,961)	($ 4,004)
Net exchange (loss) gain	(1,002)	793
	($ 3,963)	($ 3,211)

(19) Finance costs

	2019	2018
Interest expense	$ 482	$ -

(20) Income tax

A. Components of income tax expense:

	2019	2018
Current tax:		
Current tax on profits for the year	$ 14,744	$ 790
Prior year income tax under (over) estimation	118	(3,411)
Total current tax	14,862	(2,621)
Deferred tax:		
Origination and reversal of temporary differences	(7,641)	10,722
Total deferred tax	(7,641)	10,722
Income tax expense	$ 7,221	$ 8,101

B. Reconciliation between income tax expense and accounting profit

	2019	2018
Tax calculated based on profit before income tax and statutory income tax rate (note)	$ 17,045	$ 13,703
Expenses disallowed by tax regulation	451	36
Tax exempt income by tax regulation	(2,389)	(604)
Effect from tax credit of research activities	(3,782)	(82)
Prior year income tax under (over) estimation	118	(3,411)
Change in assessment of realization of deferred tax assets	360	788
Effects from GILTI and FDII deduction	(1,514)	-
Effect from Alternative Minimum Tax	(3,068)	(2,329)
Income tax expense	$ 7,221	$ 8,101

Note: The applicable tax basis depends on which tax rate applies in the country.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

	2019				
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	December 31
- Deferred tax assets:					
Credit for alternative minimum tax	$ 6,766	($ 6,766)	$ -	$ -	$ -
Temporary differences:					
Allowance for obsolescence of inventory	6,361	2,284	-	-	8,645
Amortization of intangible assets	4,921	955	-	-	5,876
Accrued annual leave	461	110	-	-	571
Share-based payment	50	583	-	-	633
Allowance for bad debt reserves	2	33	-	-	35
Others	838	460	-	-	1,298
	19,399	(2,341)	-	-	17,058
- Deferred tax liabilities:					
Temporary difference:					
Book-tax difference on property, plant and equipment	(32,239)	9,982	-	-	(22,257)
	(32,239)	9,982	-	-	(22,257)
	($ 12,840)	$ 7,641	$ -	$ -	($ 5,199)

	2018				
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	December 31
- Deferred tax assets:					
Credit for alternative minimum tax	$ 15,741	($ 8,975)	$ -	$ -	$ 6,766
Temporary differences:					
Allowance for obsolescence of inventory	3,990	2,371	-	-	6,361
Amortization of intangible assets	3,688	1,233	-	-	4,921
Accrued annual leave	785	(324)	-	-	461
Share-based payment	21	29	-	-	50
Allowance for bad debt reserves	-	2	-	-	2
Others	3,544	(2,706)	-	-	838
	27,769	(8,370)	-	-	19,399
- Deferred tax liabilities:					
Temporary difference:					
Book-tax difference on property, plant and equipment	(29,887)	(2,352)	-	-	(32,239)
	(29,887)	(2,352)	-	-	(32,239)
	$ 2,118	($ 10,722)	$ -	$ -	($ 12,840)

(21) Earnings per share

	2019		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to the parent	$ 69,264	36,400	$ 1.90
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 69,264	36,400	
Assumed conversion of all dilutive potential ordinary shares:			
Employee compensation	-	38	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 69,264	36,438	$ 1.90

	2018		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to the parent	$ 51,361	36,148	$ 1.42
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 51,361	36,148	
Assumed conversion of all dilutive potential ordinary shares:			
Employee compensation	-	35	
Employee stock options	-	15	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 51,361	36,198	$ 1.42

(22) Seasonality of operation

Gallium Arsenide (GaAs) and Indium Phosphide (InP) are the Group's major products. The demand of the products depends on the stock planning policy and the stock level of direct customers at different times. In addition, the Group keeps developing other products and other services. The Group maintains stable relationship with major customers to provide products and technical research development services. The impact of seasonality on the Group's operation is minimal.

(23) Supplemental cash flow information

Investing activities with partial cash receipts or payments

	2019	2018
Purchase of property, plant and equipment	$ 76,823	$ 101,338
Receipt of government grants	-	19,702
Add: Opening balance of payable on equipment	5,419	9,487
Less: Ending balance of payable on equipment	(2,006)	(5,419)
Exchange of property, plant and equipment	-	(595)
Cash paid during the year	$ 80,236	$ 124,513

7. RELATED PARTY TRANSACTIONS

Key management compensation

	2019	2018
Salaries and other short-term employee benefits	$ 38,234	$ 44,741
Share-based payments	1,063	139
	$ 39,297	$ 44,880

8. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

The Board of Directors proposed for the distribution of cash dividends on March 25, 2020. Please refer to Note 6(13) for details.

(2) Commitments

A. Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	December 31, 2019	December 31, 2018
Property, plant and equipment	$ 18,219	$ 1,019

B. Operating lease agreements

Prior to 2019

The Group leases equipment and office space under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and most operating lease agreements can be renewed at market price at the end of the lease period.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2018
Within 1 year	$ 3,163
Later than one year but not later than five years	1,481
	$ 4,644

9. SIGNIFICANT EVENT AFTER THE BALANCE SHEET DATE

(1) Earnings distribution

The Board of Directors proposed for the distribution of cash dividends on March 25, 2020. Please refer to Note 6(13) for details.

(2) Purchase of treasury shares

The Board of Directors resolved to purchase treasury shares on March 25, 2020. Please refer to Note6(11) for details.

10. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(2) Fair value information of financial instruments

The carrying amounts of the Group's financial instruments not measured at fair value (including cash, notes receivable, accounts receivable, other receivables, other current assets (time deposit exceeding three months and restricted cash for purchase of treasury shares), accounts payable, bonds payable and other payables) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 10(5).

(3) Financial risk management policies

A. The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance.

B. Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units.

(4) Significant financial risks and degrees of financial risks

Market risk

A. Exchange rate risk

The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency. The Group has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The exchange rate risk arising from the translation of each functional currencies into the reporting currency of the consolidated financial statements is managed by the Group treasury. Since the Group's main operating activities including sales and purchases are denominated in the Company's functional currency 'USD', the effect of exposure to changes in foreign exchange rates is immaterial after the assessment.

B. Credit risk

(a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortized cost.

(b) The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with good credit are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored.

(c) The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.

(d) The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

i. If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

ii. If the credit rating grade of a financial institution degrades, there has been a significant increase in credit risk on the financial assets associated with the financial institution since initial recognition.

(e) The Group classifies customers' accounts receivable in accordance with industry types. The Group applies the modified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

(f) The Company wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Company will continue executing the recourse procedures to secure their rights.

(g) The Group used the forecastability of the semiconductor industry report to adjust historical and timely information to assess the default possibility of accounts receivable. On December 31, 2019 and 2018, the provision matrix is as follows:

	Not past due	Up to 90 days past due	91~180 days past due	More than180 days past due	Total
At December 31, 2019					
Expected loss rate	0.0099%	0.0326%	6.3462%	100%	
Total book value	$ 66,737	$ 18,040	$ 2,461	$ -	$ 87,238
Loss allowance	$ 6	$ 6	$ 156	$ -	$ 168

	Not past due	Up to 90 days past due	91~180 days past due	More than180 days past due	Total
At December 31, 2018					
Expected loss rate	0.0122%	0.0403%	7.8679%	100%	
Total book value	$ 52,448	$ 13,838	$ -	$ -	$ 66,286
Loss allowance	$ 6	$ 6	$ -	$ -	$ 12

(h) Movements in relation to the Group applying the modified approach to provide loss allowance for accounts receivable is as follows:

	2019
	Accounts receivable
At January 1	$ 12
Provision for impairment	162
Effect of foreign exchange	(6)
At December 31	$ 168

	2018
	Accounts receivable
At January 1_IAS 39	$ -
Adjustments under new standards	225
Reversal of impairment loss	(211)
Effect of foreign exchange	(2)
At December 31	$ 12

The Group used the forecast ability of semiconductor industry report to adjust historical and timely information to assess the default possibility of accounts receivable on December 31, 2019 and 2018, held by the Group to estimate expected credit loss.

(i) Current financial assets at amortized cost recognized are time deposit which due date are more than three months. The financial institution is with good credit thus the impact of impairment loss is evaluated as immaterial.

C. Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

Except for lease liabilities, the maturity date of all the non-derivative financial liabilities the company held at December 31, 2019 and 2018 were within one year. The amounts disclosed in the table are the contractual undiscounted cash flows.

December 31, 2019 Non-derivative financial liabilities:	Within one year	Beyond one year
Lease liability	$ 1,486	$ 6,439

11. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loan to others for the year ended December 31, 2019: None.

B. Provision of endorsements and guarantees to others for the year ended December 31, 2019: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures) as of December 31, 2019: None.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital for the year ended December 31, 2019: None.

E. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more for the year ended December 31, 2019: None.

F. Disposal of real estate reaching $300 million or 20% of paid-in capital or more for the year ended December 31, 2019: None.

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more for the year ended December 31, 2019: None.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more as of December 31, 2019: None.

I. Derivative financial instruments undertaken during the year ended December 31, 2019: None.

J. Significant inter-company transactions during the year ended December 31, 2019: Please refer to table 1.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China)：Please refer to table 2.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 3.

B. Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas: None.

12. SEGMENT INFORMATION

(1) General information

The Group operates business only in a single industry. The Board of Directors, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

The composition of the Group, the basis of segment allocation and the measurement of segment information remain unchanged in current reporting periods.

(2) Segment information

The Company's Chief Operating Decision-Maker evaluates performance of operating segments based on the consolidated financial statements. The accounting policies of the operating segments are in agreement with the significant accounting policies summarized in Note 4.

Information on segment profit (loss), assets and liabilities of the Group are measured in a manner consist with that in the consolidated financial statements.

(3) Segment profit or loss, assets and liabilities

Information on segment profit (loss), assets and liabilities of the Company and its subsidiaries are measured in a manner consistent with that in the consolidated financial statements.

(4) Information on products and services

Please refer to Note 6(14) for details.

(5) Geographical information

Geographical information for the years ended December 31, 2019 and 2018 is as follows:

	2019		2018	
	Revenue	Non-current assets	Revenue	Non-current assets
US	$ 460,316	$ 1,099,866	$ 412,653	$ 1,149,249
Germany	135,928	-	117,467	-
Japan	38,709	-	34,109	-
Others	77,395	3,618	85,814	2,570
	$ 712,348	$ 1,103,484	$ 650,043	$ 1,151,819

(6) Major customer information

Major customer information of the Group for the years ended December 31, 2019 and 2018 is as follows:

	2019		2018	
	Revenue	Percentage of revenue	Revenue	Percentage of revenue
Customer A	$ 134,979	19%	$ 117,466	18%
Customer B	104,597	15%	18,613	3%
Customer C	72,098	10%	38,623	6%
Customer D	59,373	8%	118,314	18%
	$ 371,047		$ 293,016	

Table 1

INTELLIEPI INC. (CAYMAN) AND SUBSIDIARIES

Significant inter-company transactions for the year ended December 31, 2019

(Expressed in thousands of New Taiwan Dollars, except as otherwise indicated)

				Transaction			
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
1	Intelligent Epitaxy Technology Inc.	IntelliEPI IR, Inc.	1	Service revenue	13,068	No similar transaction for comparison. Prices and terms are based on mutual agreement.	1.83%
1	Intelligent Epitaxy Technology Inc.	IntelliEPI Japan, Ltd.	1	Commission expenses	1,984	No similar transaction for comparison. Prices and terms are based on mutual agreement.	0.28%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is ‘0’.

(2) The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: The Company may decide to disclose or not to disclose transaction details in this table based on the Materiality Principle, $1000. All related party transactions disclosed as above were eliminated while preparing consolidated financial statements.

Table 2

INTELLIEPI INC. (CAYMAN) AND SUBSIDIARIES

Information on investees for the year ended December 31, 2019

(Expressed in thousands of New Taiwan Dollars, except as otherwise indicated)

				Initial investment amount (Note 1)		Shares held as at December 31, 2019			Net profit (loss) of the investee for the year ended	Investment income (loss) recognized by the Company for the year ended	
Investor	Investee (Note 1 and 2)	Location	Main business activities	Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)	Book value	December 31, 2019	December 31, 2019	Footnote
The Company	Intelligent Epitaxy Technology Inc.	USA	Manufacturing and selling epitaxy	$ 772,120	$ 772,120	19,286,954	100.00	$ 1,457,526	$ 87,705	$ 87,705	Direct subsidiary
Intelligent Epitaxy Technology Inc.	IntelliEPI Japan, Ltd.	Japan	Sales and technical support services of semiconductor and related materials	372	372	102	51.00	481	86	44	Indirect subsidiary
Intelligent Epitaxy Technology Inc.	IntelliEPI IR, Inc.	USA	Semiconductor technical services	116	116	400,000	40.00	24,587	3,257	3,257	Indirect subsidiary

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

(1) The columns of 'Investee', 'Location', 'Main business activities', Initial investment amount' and 'Shares held as at December 31, 2019' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.

(2) The 'Net profit (loss) of the investee for the year ended December 31, 2019' column should fill in amount of net profit (loss) of the investee for this period.

(3) The 'Investment income (loss) recognized by the Company for the year ended December 31, 2019' column should fill in the Company (public company) recognized investment income (loss) of its direct subsidiary and recognized investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognized investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognized by regulations.

Table 3

INTELLIEPI INC. (CAYMAN) AND SUBSIDIARIES
Information on investments in Mainland China for the year ended December 31, 2019
(Expressed in thousands of New Taiwan Dollars, except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the year ended December 31, 2019: Remitted to Mainland China	Remitted back to Taiwan	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net income (loss) of the investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2019	Book value of investment in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019	Footnote
IntelliEPI China, Ltd.	Research and development of semiconductor materials and relevant facilities, and technical services	$10,745	(c)	$ -	$ -	$ -	$ -	$ 43	100.00	($ 5,157)	($ 10,147)	$ -	Note 2

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
IntelliEPI China, Ltd.	$ -	$ -	$ -

Note 1: Investment methods are classified into the following three categories:

(a) Directly invest in a company in Mainland China.

(b) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.

(c) Others: direct investment by IET-US.

Note 2: Indicate the basis for investment income (loss) recognition in the number of the financial statements were audited and attested by R.O.C. parent company's CPA.

Note 3: The numbers in this table are expressed in New Taiwan Dollars.