

English Translation of a Report and Financial Statements Originally Issued in Chinese

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**WITH**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

# 2021 Consolidated Financial Statements

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## REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2021 and for the year then ended prepared under the International Financial Reporting Standards, No.10 are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

Rafael Microelectronics, Inc.

Chairman: Quincy Lin

March 9, 2022

## **Independent Auditors' Report**

To the Board of Directors and Shareholders  
of Rafael Microelectronics, Inc.

### **Opinion**

We have audited the accompanying consolidated balance sheets of Rafael Microelectronics, Inc. and its subsidiaries (the Group) as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2021 and 2020, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, based on our audits and the reports of other independent auditors, as described in the Other matter section of our report, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021 and 2020, and their consolidated financial performance and cash flows for the years ended December 31, 2021 and 2020, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other independent auditors, 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 judgment, were of most significance in our audit of 2021 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and

we do not provide a separate opinion on these matters.

## 1. Revenue recognition

The Group recognized NT\$1,031,214 thousand as net sales, which includes sale of goods in the amount of NT\$969,983 thousand, or 94.06% to the consolidated net sales, and services revenues in the amount of NT\$61,231 thousand, or 5.94% to the consolidated net sales, for the year ended December 31, 2021. Due to the fact that selling product is the main business activity and the products are sold to markets in Asia and other regions in addition to Taiwan, it is necessary for the Group to judge and determine the performance obligation of a contract and the timing of its satisfaction. As a result, we determined the matter to be a key audit matter.

Our audit procedures include, but are not limited to, evaluating and testing the effectiveness of internal control of sales cycle which is related to the timing of revenue recognition for performance obligation; assessing the appropriateness of the accounting policy for revenue recognition; performing test of details on samples selected; reviewing the major terms and trade conditions of sales agreements or orders; checking transaction evidences such as shipping documents and receipts signed by customers; performing cutoff procedures for certain period before and after the reporting date; and reviewing sales discount and collections in subsequent periods. We also considered the appropriateness of the accounting policies and disclosures of sales addressed in Note 4(17) and Note 6(15) in the notes to consolidated financial statements.

## 2. Inventory control and management

As of December 31, 2021, the Group's net inventory balance was NT\$269,178 thousand, or 15.47% to the consolidated total assets, which is considered a material item to the Group. Additionally, due to the fact that the production of RF ICs, integrated RF systems and related products are outsourced to foundries, packaging and testing manufacturers, the Group's inventories are distributed among various outsourced suppliers, which increases the complexity of managing inventory usage status. As a result, we determined the matter to be a key audit matter.

Our audit procedures include, but are not limited to, understanding the internal control and management procedures related to inventory quantity; assessing the management's physical inventory plan; selecting major locations based on inventory balance and observing the physical count at those selected sites; and reconciling physical count data to that on the inventory subledger. We also considered the appropriateness of the accounting policies and disclosures of inventory addressed in Note 4(10) and Note 6(6) in the notes to consolidated financial statements.

### **Other matter – Reference to the audits of other independent auditors**

We did not audit the financial statements of certain consolidated subsidiaries, which statements reflected total assets of NT\$2,959 thousand and NT\$2,885 thousand, constituting 0.17% and 0.17% of consolidated total assets as of December 31, 2021 and 2020, respectively, and total net sales were

both NT\$0, constituting 0% of consolidated net sales for the years ended December 31, 2021 and 2020, respectively. The financial statements of these subsidiaries were audited by other independent auditors and our opinion expressed herein, insofar as it relates to the amounts included in the consolidated statements, is based on the reports of other independent auditors. Additionally, we did not audit the financial statements of certain investee companies, which statements reflected investments accounted for using the equity method of NT\$9,223 thousand and NT\$32,289 thousand, constituting 0.53% and 1.90% of consolidated total assets as of December 31, 2021 and 2020, respectively, the share of loss of associates and joint ventures accounted for using the equity method of NT\$2,160 thousand and NT\$6,815 thousand, constituting (1.17)% and (3.20)% to the consolidated net income before tax for the years ended December 31, 2021 and 2020, respectively, and the share of other comprehensive income accounted for using the equity method of both NT\$0, constituting 0% of consolidated other comprehensive income for the years ended December 31, 2021 and 2020, respectively. The financial statements of these investee companies were audited by other independent auditors and our opinion expressed herein, insofar as it relates to the amounts included in the consolidated financial statements, is based on the reports of other independent auditors.

### **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 requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability to continue as a going concern of the Group, 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 financial reporting process of the Group.

### **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 auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can

arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Based on the audit evidence obtained, conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Group. 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.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant

deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2021 consolidated financial statements 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.

## **Others**

We have audited and expressed an unqualified opinion with an Other matter section on the parent company only financial statements of Rafael Microelectronics, Inc. as of and for the years ended December 31, 2021 and 2020.

Yang, Yu-Ni

Chiu, Wan-Ju

Ernst & Young, Taiwan

March 9, 2022

## Notice to Readers

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

Accordingly, the accompanying 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. As the financial statements are the responsibility of the management, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

English Translation of Financial Statements Originally Issued in Chinese

**RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**As of December 31, 2021 and 2020**

(Amount in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2021	%	December 31, 2020	%
Current assets					
Cash and cash equivalents	4, 6(1), 12	\$ 615,224	35	\$ 966,387	57
Financial assets at fair value through profit or loss-current	4, 6(2), 12	328,372	19	114,046	7
Financial assets measured at amortized cost-current	4, 6(4), 12	14,700	1	14,700	1
Trade receivables, net	4, 6(5), 6(16), 12	89,296	5	118,475	7
Trade receivables from related parties, net	4, 6(5), 6(16), 7, 12	595	-	-	-
Other receivables	4, 12	46,313	3	15,047	1
Inventories	4, 5, 6(6)	269,178	15	131,692	8
Prepayments	6(7)	12,024	1	6,880	-
Other current assets	4	1,149	-	264	-
Cost to fulfill a contract-current	6(15)	11,939	1	8,453	-
Total current assets		<u>1,388,790</u>	<u>80</u>	<u>1,375,944</u>	<u>81</u>
Non-current assets					
Financial assets at fair value through other comprehensive income-noncurrent	4, 6(3), 12	15,300	1	-	-
Investments accounted for using the equity method	4, 6(8)	9,223	-	32,289	3
Property, plant and equipment	4, 6(9)	226,155	13	225,318	13
Right-of-use assets	4, 6(17)	9,784	1	7,349	-
Intangible assets	4, 6(10)	83,923	5	48,562	3
Deferred tax assets	4, 5, 6(21)	2,771	-	2,732	-
Other non-current assets	4, 6(11), 12	3,795	-	3,323	-
Total non-current assets		<u>350,951</u>	<u>20</u>	<u>319,573</u>	<u>19</u>
Total assets		<u>\$ 1,739,741</u>	<u>100</u>	<u>\$ 1,695,517</u>	<u>100</u>

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

Chairman : Quincy Lin

President : Ted Sun

Chief Financial Officer : Anita Yen

English Translation of Financial Statements Originally Issued in Chinese

**RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**As of December 31, 2021 and 2020**

(Amount in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	December 31, 2021	%	December 31, 2020	%
Current liabilities					
Contract liabilities-current	4, 6(15)	\$ 8,620	-	\$ 5,932	-
Trade payables	4, 12	79,291	5	71,792	4
Other payables	4, 12	117,492	7	133,173	8
Current tax liabilities	4, 5, 6(21)	31,693	2	43,057	3
Lease liabilities-current	4, 6(17), 12	7,159	-	3,072	-
Other current liabilities-others		661	-	621	-
Total current liabilities		244,916	14	257,647	15
Non-current liabilities					
Deferred tax liabilities	4, 5, 6(21)	1,114	-	614	-
Lease liabilities-noncurrent	4, 6(17), 12	2,463	-	4,154	-
Deposits received	12	-	-	89	-
Total non-current liabilities		3,577	-	4,857	-
Total liabilities		248,493	14	262,504	15
Equity attributable to owners of the parent					
Share capital	6(13)				
Common stock		307,831	18	257,141	15
Capital collected in advance		1,084	-	-	-
Stock to be cancelled		-	-	(400)	-
Capital surplus	4, 6(13)	408,438	23	404,314	24
Retained earnings	6(13)				
Legal reserve		146,076	8	127,878	9
Special reserve		414	-	1,022	-
Unappropriated earnings/(accumulated deficit)		707,484	41	736,229	43
Total retained earnings		853,974	49	865,129	52
Other equity		(37,316)	(2)	(50,408)	(3)
Treasury shares	6(13)	(42,763)	(2)	(42,763)	(3)
Total equity		1,491,248	86	1,433,013	85
Total liabilities and equity		\$ 1,739,741	100	\$ 1,695,517	100

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

Chairman : Quincy Lin

President : Ted Sun

Chief Financial Officer : Anita Yen

English Translation of Financial Statements Originally Issued in Chinese  
**RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the years ended December 31, 2021 and 2020**  
(Amount in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	2021	%	2020	%
Net sales	4, 6(15), 7	\$ 1,031,214	100	\$ 1,062,851	100
Operating costs	4, 6(6)	(472,070)	(46)	(542,550)	(52)
Gross profit		559,144	54	520,301	48
Operating expenses	6(12), 6(17), 6(18), 7				
Selling expenses		(39,897)	(4)	(31,140)	(3)
General and administrative expenses		(49,219)	(5)	(46,372)	(4)
Research and development expenses		(281,231)	(27)	(227,203)	(21)
Expected credit losses	4, 6(16)	(19,309)	(2)	(390)	-
Total operating expenses		(389,656)	(38)	(305,105)	(28)
Operating income		169,488	16	215,196	20
Non-operating income and expenses	4, 6(19)				
Interest income		3,629	-	5,049	-
Other income		15,462	2	8,330	1
Other gains and losses		(1,206)	-	(8,441)	(1)
Finance costs		(323)	-	(274)	-
Share of (profit)/loss of associates and joint ventures accounted for using the equity method	6(8)	(2,160)	-	(6,815)	(1)
Total non-operating income and expenses		15,402	2	(2,151)	(1)
Net income before income tax		184,890	18	213,045	19
Income tax expense	4, 5, 6(21)	(18,426)	(2)	(31,069)	(3)
Net income		166,464	16	181,976	16
Other comprehensive income	6(20)				
Items that may not be reclassified subsequently to profit or loss					
Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income		(3,842)	-	-	-
Items that may be reclassified subsequently to profit or loss					
Exchange differences resulting from translating the financial statements of foreign operations		(477)	-	608	-
Other comprehensive income net of tax		(4,319)	-	608	-
Total comprehensive income		\$ 162,145	16	\$ 182,584	16
Net income (loss) for the periods attributable to :					
Owners of the parent		\$ 166,464		\$ 181,976	
Total comprehensive income for the periods attributable to :					
Owners of the parent		\$ 162,145		\$ 182,584	
Earnings Per Share (in New Taiwan Dollars)					
Basic Earnings Per Share					
Net income	6(22)	\$ 5.65		\$ 6.19	
Diluted Earnings Per Share					
Net income	6(22)	\$ 5.50		\$ 6.09	

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

Chairman : Quincy Lin

President : Ted Sun

Chief Financial Officer : Anita Yen

English Translation of Financial Statements Originally Issued in Chinese

**RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

For the years ended December 31, 2021 and 2020

(Amount in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent											Treasury shares	Total equity
	Share capital			Capital surplus	Retained earnings			Other equity					
	Common stock	Capital collected in advance	Stock to be cancelled		Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income	Unearned employee remuneration			
Balance as of January 1, 2020	\$ 251,109	\$ -	\$ (100)	\$ 359,368	\$106,009	\$ 707	\$ 701,991	\$ (1,021)	\$ -	\$ (16,886)	\$ -	\$1,401,177	
Appropriation and distribution of 2019 earnings													
Legal reserve	-	-	-	-	21,869	-	(21,869)	-	-	-	-	-	
Special reserve	-	-	-	-	-	315	(315)	-	-	-	-	-	
Cash dividends	-	-	-	-	-	-	(125,554)	-	-	-	-	(125,554)	
Changes in associates and joint ventures accounted for using the equity method	-	-	-	3,573	-	-	-	-	-	-	-	3,573	
Cash dividends distributed from capital surplus	-	-	-	(25,111)	-	-	-	-	-	-	-	(25,111)	
Profit for the year ended December 31, 2020	-	-	-	-	-	-	181,976	-	-	-	-	181,976	
Other comprehensive income for the year ended December 31, 2020	-	-	-	-	-	-	-	608	-	-	-	608	
Total comprehensive income	-	-	-	-	-	-	181,976	608	-	-	-	182,584	
Treasury stock acquired	-	-	-	-	-	-	-	-	-	-	(42,763)	(42,763)	
Share-based payment transactions	6,032	-	(300)	66,484	-	-	-	-	-	(33,109)	-	39,107	
Balance as of December 31, 2020	<u>\$ 257,141</u>	<u>\$ -</u>	<u>\$ (400)</u>	<u>\$ 404,314</u>	<u>\$127,878</u>	<u>\$ 1,022</u>	<u>\$ 736,229</u>	<u>\$ (413)</u>	<u>\$ -</u>	<u>\$ (49,995)</u>	<u>\$(42,763)</u>	<u>\$1,433,013</u>	
Balance as of January 1, 2021	\$ 257,141	\$ -	\$ (400)	\$ 404,314	\$127,878	\$ 1,022	\$ 736,229	\$ (413)	\$ -	\$ (49,995)	\$(42,763)	\$1,433,013	
Appropriation and distribution of 2020 earnings													
Legal reserve	-	-	-	-	18,198	-	(18,198)	-	-	-	-	-	
Reversal of special reserve	-	-	-	-	-	(608)	608	-	-	-	-	-	
Cash dividends	-	-	-	-	-	-	(126,871)	-	-	-	-	(126,871)	
Stock dividends	50,748	-	-	-	-	-	(50,748)	-	-	-	-	-	
Profit for the year ended December 31, 2021	-	-	-	-	-	-	166,464	-	-	-	-	166,464	
Other comprehensive income for the year ended December 31, 2021	-	-	-	-	-	-	-	(477)	(3,842)	-	-	(4,319)	
Total comprehensive income	-	-	-	-	-	-	166,464	(477)	(3,842)	-	-	162,145	
Proceeds from disposal of investments accounted for using the equity method	-	-	-	(3,573)	-	-	-	-	-	-	-	(3,573)	
Share-based payment transactions	(58)	1,084	400	7,697	-	-	-	-	-	17,411	-	26,534	
Balance as of December 31, 2021	<u>\$ 307,831</u>	<u>\$ 1,084</u>	<u>\$ -</u>	<u>\$ 408,438</u>	<u>\$146,076</u>	<u>\$ 414</u>	<u>\$ 707,484</u>	<u>\$ (890)</u>	<u>\$ 3,842</u>	<u>\$ (32,584)</u>	<u>\$(42,763)</u>	<u>\$1,491,248</u>	

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

Chairman : Quincy Lin

President : Ted Sun

Chief Financial Officer : Anita Yen

English Translation of Financial Statements Originally Issued in Chinese  
**RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2021 and 2020**  
(Amount in thousands of New Taiwan Dollars)

Description	For the years ended December 31	
	2021	2020
Cash flows from operating activities:		
Net income before income tax	\$ 184,890	\$ 213,045
Adjustments for:		
Profit or loss items:		
Depreciation	18,084	12,468
Amortization	42,373	31,527
Expected credit losses	19,309	390
(Gains)/losses on financial assets and liabilities at fair value through profit or loss	(1,808)	764
Interest expenses	323	274
Interest income	(3,629)	(5,049)
Dividend income	(5,852)	(3,256)
Share-based payment expenses	26,952	14,876
Share of loss of associates and joint ventures accounted for using the equity method	2,160	6,815
Gains on disposal of investments accounted for using the equity method	(1,890)	-
Changes in assets and liabilities relating to operating activities:		
Trade receivables	9,870	(27,356)
Trade receivables from related parties	(595)	-
Other receivables	(31,291)	(1,945)
Inventories	(137,486)	(4,908)
Prepayments	(5,144)	(5,304)
Other current assets	(885)	(177)
Cost to fulfill a contract	(3,486)	(8,453)
Contract liabilities	2,688	1,600
Trade payables	7,499	(18,810)
Other payables	(15,681)	(2,688)
Other current liabilities	40	208
Cash generated from operating activities	<u>106,441</u>	<u>204,021</u>
Interest received	3,654	5,107
Dividend received	5,852	3,256
Interest paid	(323)	(274)
Income tax paid	(29,329)	(38,013)
Net cash provided by operating activities	<u>86,295</u>	<u>174,097</u>
Cash flows from investing activities:		
Acquisition of financial assets at fair value through profit or loss	(212,518)	(32,239)
Proceeds from disposal of financial assets at fair value through profit or loss	-	11,067
Acquisition of investments accounted for using the equity method	-	(10,234)
Acquisition of property, plant and equipment	(12,190)	(8,748)
Decrease (increase) in refundable deposits	58	(316)
Acquisition of intangible assets	(77,208)	(22,069)
Increase in other non-current assets	(1,059)	(554)
Net cash used in investing activities	<u>(302,917)</u>	<u>(63,093)</u>
Cash flows from financing activities:		
(Decrease) Increase in deposits received	(89)	89
Cash payment for the principal portion of the lease liabilities	(6,530)	(2,794)
Cash dividends	(126,871)	(150,665)
Proceeds from exercise of employee stock options	1,084	-
Treasury stocks acquired	-	(42,763)
(Expired restricted stock for employees) issuance of restricted stock for employees	(1,502)	24,231
Net cash used in financing activities	<u>(133,908)</u>	<u>(171,902)</u>
Effect of changes in exchange rate on cash and cash equivalents	(633)	112
Net decrease in cash and cash equivalents	(351,163)	(60,786)
Cash and cash equivalents at the beginning of the period	966,387	1,027,173
Cash and cash equivalents at the end of the period	<u>\$ 615,224</u>	<u>\$ 966,387</u>

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

Chairman : Quincy Lin

President : Ted Sun

Chief Financial Officer : Anita Yen

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

**1. Organization and Operation**

Rafael Microelectronics, Inc. (the Company) was incorporated on November 10, 2006, and the major operating activities started and significant sales revenue was generated since March 1, 2011. Since then, the Company has been specialized in the R&D, design, manufacturing and marketing of radio frequency integrated circuits (RF IC), integrated RF systems and related products. 8F, No.28, Chenggong 12th St., Zhubei City, Hsinchu County is the Company's registration address and principal operation site.

**2. Date and Procedures of Authorization of Financial Statements for Issue**

The consolidated financial statements of 2021 and 2020 of the Company and subsidiaries (the Group) were authorized for issue in accordance with a resolution of the Board of Directors on March 9, 2022.

**3. Newly Issued or Revised Standards and Interpretations**

- (1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2021. The application of these new standards and amendments had no material effect on the Group.

- (2) Standards or interpretations issued, revised or amended by International Accounting Standards Board ("IASB") which are endorsed by FSC, but not yet adopted by the Group as at the end of the reporting period are listed below:

Item	New, Revised or Amended Standards and Interpretations	Effective Date
1	Narrow-scope amendments including IFRS 3, IAS 16 and IAS 37 and the annual improvements	January 1, 2022

A. Narrow-scope amendments include amendments to IFRS 3, IAS 16 and IAS 37, and the annual improvements.

- (a) Updating a reference to conceptual framework (Amendments to IFRS 3)

The amendment to IFRS 3 is issued to replace the previous reference to conceptual framework of financial reporting with the latest reference issued in March 2018. An exception to the amendment is added to avoid the issue of potential "day 2" gains or losses arising from liabilities and contingent liabilities. Meanwhile, the amendments

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

provide the clarification to those existing references for contingent assets not affected by the latest references.

- (b) Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendments prohibit an entity deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items and the cost of producing those items in profit or loss.

- (c) Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

- (d) Improvements to IFRSs for the period from 2018 to 2020

Amendments to IFRS 1

The amendment simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter later than its parent in relation to the measurement of cumulative translation adjustment.

Amendments to IFRS 9 “Financial Instruments”

The amendments requires an entity to assess if there is significant difference, including related expenditures, arise on new or modified contractual terms of financial liabilities compared to the original financial liabilities.

Amendments to Illustrative Examples of IFRS 16 “Leases”

The amendment to Illustrative Example 13 is related to lease incentive of leasehold improvement to the lessee.

Amendments to IAS 41

The amendment to IAS 41 removed a requirement to exclude taxation cash flows when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2022 and have no material impact on the Group.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- (3) Standards or interpretations issued, revised or amended by IASB, but not yet endorsed by FSC and not yet adopted by the Group as at the end of the reporting period are listed below:

Item	New, Revised or Amended Standards and Interpretations	Effective Date
1	IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	To be determined by IASB
2	IFRS 17 “Insurance Contracts”	January 1, 2023
3	“Classification of Liabilities as Current or Non-Current” (Amendment to IAS 1)	January 1, 2023
4	“Disclosure Initiative - Accounting Policies” (Amendment to IAS 1)	January 1, 2023
5	“Definition of Accounting Estimates” (Amendment to IAS 8)	January 1, 2023
6	“Deferred Tax related to Assets and Liabilities arising from a Single Transaction” (Amendment to IAS 12)	January 1, 2023

**A. IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)**

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 “Consolidated Financial Statements” (IFRS 10) and IAS 28 “Investments in Associates and Joint Ventures” (IAS 28), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 requires that gains and losses resulting from contributions of non-monetary assets to an associate or a joint venture should only be recognized to the extent of the interest attributable to the other equity holders in the associate or joint venture as in the downstream transactions. IFRS 10 requires full profit or loss recognition on the loss of control of a subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 “Business Combinations” (IFRS 3) between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 to an associate or joint venture is recognized only to the extent of unrelated investors’ interests in the associate or joint venture.

**B. IFRS 17 “Insurance Contracts”**

IFRS 17 “Insurance Contracts” (IFRS 17) establishes a comprehensive model for insurance contracts, which includes accounting principles for the recognition, measurement, presentation and disclosure of insurance contracts. The general measurement model is the core of IFRS 17. The model requires that, on initial recognition, the liability of a group of insurance contracts is made up of the contractual service margin

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

and fulfillment cash flows. At each reporting date, the carrying amount of a portfolio consists of the liability for remaining coverage and the liability for incurred claims.

IFRS 17 introduces the variable fee approach specifically for direct participating contracts, and a simplified approach – the premium allocation approach (PAA) for short term contracts in addition to the general measurement model.

IFRS 17 was issued in May 2017 and amended in June 2020. In the transition clauses of the amendments, the effective date is deferred by 2 years from January 1, 2021 to January 1, 2023 with additional exemptions. The simplification of some standards leading to a lower cost of application, and the amendments allows certain situations easier to interpret. The transition standards (i.e. IFRS 4 “Insurance Contracts”) shall be replaced with the effectiveness of IFRS 17.

C. “Classification of Liabilities as Current or Non-Current” (Amendment to IAS 1)

The amendments to IAS 1 “Presentation of Financial Statements” clarified how an entity classifies liabilities as current or non-current under particular circumstances addressed in Paragraph 69 to Paragraph 76.

D. “Disclosure Initiative - Accounting Policies” (Amendment to IAS 1)

The amendments will help companies to improve accounting policy disclosures so that they provide more useful information to investors and other primary users of the financial statements.

E. “Definition of Accounting Estimates” (Amendment to IAS 8)

The amendments introduced the definition of accounting estimates and included other amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” to help entities distinguish changes in accounting estimates from changes in accounting policies.

F. “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” (Amendment to IAS 12)

The amendments narrow the scope of Paragraphs 15 and 24 of IAS 12 “Income Tax” to include an additional condition where the recognition exemption of deferred taxes is not applied. According to the amended guidance, a temporary difference that arises on initial recognition of an asset or liability is not subject to the initial recognition exemption if that transaction gave rise to equal amounts of taxable and deductible temporary differences.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

The abovementioned standards and interpretations issued by IASB have not yet been recognized by FSC at the date of issuance of the Group's financial statements, the local effective dates are to be determined by FSC. The abovementioned standards and interpretations have no material impact on the Group.

**4. Summary of Significant Accounting Policies**

(1) Statement of Compliance

The Group's consolidated financial statements of 2021 and 2020 have been prepared in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by FSC.

(2) Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars ("NT\$") unless otherwise stated.

(3) Basis of Consolidation

Basis of preparation of consolidated financial statement

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- A. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- B. Exposure, or rights, to variable returns from its involvement with the investee; and
- C. The ability to use its power over the investee to affect its returns.

When the Company directly or indirectly has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- A. The contractual arrangement with the other vote holders of the investee;
- B. Rights arising from other contractual arrangements;

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

C. The Company's voting rights and potential voting rights.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries 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.

If loses control of a subsidiary, the Company:

- A. Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- B. Derecognizes the carrying amount of any non-controlling interest;
- C. Recognizes the fair value of the consideration received;
- D. Recognizes the fair value of any investment retained;
- E. Recognizes any surplus or deficit in profit or loss; and
- F. Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Main business	Percentage of ownership	
			December 31, 2021	December 31, 2020
The Company	漢唐股份有限公司	General investing	100%	100%
The Company	Rafael Microelectronics Korea	Promote sales of RF IC products	100%	100%
漢唐股份有限公司	宏宇股份有限公司	General investing	100%	100%
宏宇股份有限公司	深圳宏觀微系統科技有限公司	Technical consultation and services of RF IC products	100%	100%
深圳宏觀微系統科技有限公司	深圳市宏芯智聯集成電路有限公司(Note)	Design and sell RF IC products	100%	-

Note: 深圳市宏芯智聯集成電路有限公司 was incorporated in September 2020, and capital injection was completed in July 2021.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

The Company's subsidiaries were included in the consolidated entities for the consolidated financial statements in accordance with related regulations.

(4) Foreign currency transactions

The Group's consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values are determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IFRS 9 "Financial Instruments" are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that constitutes part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date, and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences related to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of a subsidiary that includes a foreign operation that results in a loss of control or the partial disposal of interest in an associate or joint agreement that includes a foreign operation, the partial equity retained is the financial assets including a foreign operation and is considering as disposal.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation instead of recognized in profit or loss. In partial disposal of an associate or joint agreement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

(6) Current and non-current distinction

An asset is classified as current when:

- A. The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
- B. The Group holds the asset primarily for the purpose of trading.
- C. The Group expects to realize the asset within twelve months after the reporting period.
- D. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- A. The Group expects to settle the liability in its normal operating cycle.
- B. The Group holds the liability primarily for the purpose of trading.
- C. The Group is due to be settled within twelve months after the reporting period.
- D. The Group does not have an unconditional right to defer settlement of the liability for at

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid time deposits or investments (including time deposits with date of maturity within 6 months) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 are recognized initially at fair value plus or minus, in the case of these assets and liabilities not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: recognition and measurement

The Group accounts for regular way purchase or sale of financial assets on the trade date.

The Group classifies financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of:

- (a) The business model for managing the financial assets, and
- (b) The contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables, financial assets measured at amortized cost and other receivables etc., on the balance sheet as at the reporting date:

- (a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost and are not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is recognized in profit or loss and calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- (a) Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- (b) Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met, and presented on the balance sheet as financial assets at fair value through other comprehensive income:

- (a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income is described as below:

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized, the cumulative gain or loss previously

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

(c) Interest revenue is recognized in profit or loss and calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- I. Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- II. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, at initial recognition, the Group makes an irrevocable election to present subsequent changes in the fair value in other comprehensive income for an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings), and should be recorded as financial assets measured at fair value through other comprehensive income on balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represent a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

Financial assets are measured at amortized cost or measured at fair value through other comprehensive income only if they meet particular conditions. All other financial assets are measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement are recognized in profit or loss, which excludes any dividend or interest received on such financial assets.

**B. Impairment of financial assets**

The Group measures and recognizes a loss allowance for expected credit losses on financial assets measured at amortized cost.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

The Group measures expected credit losses of a financial instrument in a way that reflects:

- (a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) The time value of money; and
- (c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

- (a) At an amount equal to 12-month expected credit losses: credit risk on a financial asset has not increased significantly since initial recognition, or the financial asset is determined to have low credit risk at the reporting date. Besides, the Group measures the loss allowance for a financial asset at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that condition is no longer met.
- (b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition, or financial asset that is purchased or originated credit-impaired financial asset.
- (c) For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.
- (d) For lease receivable arising from transactions within the scope of IFRS 16, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group assesses whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the default risk occurring at the reporting date and that occurring at initial recognition. Please refer to Note 12 for details on credit risk.

**C. Derecognition of financial assets**

A financial asset is derecognized when:

- (a) The rights to receive cash flows from the asset have expired.
- (b) The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
- (c) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

D. Financial liabilities and equity

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement, and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include payables and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

When there is a swap of debt instruments with significant discrepancy in terms, or a significant revision to all or part of the terms of an existing financial liability (whether due to financial difficulties or not) between the Group and a creditor, such transaction shall be captured by derecognizing the original liability and recognizing a new liability. When derecognizing such financial liabilities, the difference between the carrying amount and the total consideration paid or payable (including non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

E. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(9) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. In the principal market for the asset or liability; or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their best interest economically.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant who would use the asset in its highest and best use.

The Group uses valuation techniques which are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(10) Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Inventory costs include costs incurred in bringing each inventory to its present location and condition available for sale or production:

Raw materials: valued at purchase cost and calculated by weighted average method.

Work in process and finished goods: include cost of direct materials, direct labor and overheads, of which the fixed overheads is allocated based on normal capacity, and calculated by weighted average method.

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

Rendering of services is accounted in accordance with IFRS 15 but not within the scope of inventories.

(11) Investments accounted for using the equity method

The Group's investment in the associates is accounted for using the equity method. An associate is an entity over which the Group has significant influence. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Group's percentage of ownership interests in the associate or joint venture, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

When the associate or joint venture issues new shares, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in "capital surplus" and "investments accounted for using the equity method". When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired based on the provisions of IAS 28 "Investments in Associates and Joint Ventures". If this is the case, the Group calculates the amount of impairment according to the provisions of IAS 36 "Impairment of Assets" as the difference between the recoverable amount of the associate or joint venture and its carrying amount, and recognizes the amount in the "share of profit or loss of an associate or joint venture" in the statement of comprehensive income. If the value in use of the investment is considered as the recoverable amount, the value in use is determined by the Group based on the estimation as follows:

- A. The Group's share of the present value of the expected future cash flows from an associate or a joint venture, which includes the cash flow generated by an associate or a joint venture from operations and the consideration received on the disposition of the investment; or
- B. The present value of the expected future cash flows the Group expects to receive for dividends from the investment and the disposal of the investment.

Goodwill, a component of carrying amount of the investment in an associate or a joint venture, is not recorded separately, so the impairment test provision of IAS 36 is not applicable.

Upon loss of significant influence over the associate or joint control to the joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Additionally, when an investment in an associate becomes an investment in a joint venture or vice versa, the Group will continue capturing the investment under equity method but not re-measure the retaining equity.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(12) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. 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 is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and methods of depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 “Property, plant and equipment”. When the major inspection and maintenance are performed, the cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings and facilities	50 years
Testing equipment	3-5 years
Office equipment	3 years
Transportation equipment	5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets’ residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate, and are treated as changes in accounting estimates.

(13) Leases

The Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether the contract, throughout the period of use, has both of the following:

- A. The right to obtain substantially all of the economic benefits from use of the identified asset; and

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- B. The right to direct the use of the identified asset.

For a contract that is, or contains, a lease, the Group accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Group for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Group estimates the stand-alone price, maximizing the use of observable information.

The Group as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Group recognizes right-of-use asset and lease liability for all leases which the Group is the lessee of those lease contracts.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate can't be readily determined, the Group uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- A. Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- B. Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- C. Amounts expected to be payable by the lessee under residual value guarantees;
- D. The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- E. Payments of penalties for terminating the lease, if the lease term reflects the lessee will exercise an option to terminate the lease.

After the commencement date, the Group measures the lease liability on an amortized cost basis, which is increasing the carrying amount to reflect interest on the lease liability by using an effective interest method; and reducing the carrying amount to reflect the lease payments made.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

At the commencement date, the Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises of:

- A. The amount of the initial measurement of the lease liability;
- B. Any lease payments made at or before the commencement date, less any lease incentives received;
- C. Any initial direct costs incurred by the lessee; and
- D. An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

For subsequent measurement of the right-of-use asset, the Group measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Group measures the right-of-use asset applying a cost model.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group applies IAS 36 “Impairment of Assets” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for leases that meet and elect short-term leases or leases of low-value assets, the Group presents right-of-use assets and lease liabilities in the balance sheet and presents interest expense separately from the depreciation charge associated with those leases in the consolidated statement of comprehensive income.

For short-term leases or leases of low-value assets, the Group elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

**(14) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful life of intangible assets is classified as finite life and indefinite life.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

An intangible asset with an indefinite useful life should not be amortized, but an annual impairment test needs to be performed on an asset or cash-generating unit (CGU). The useful life should be reviewed in each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss.

The Group's accounting policies on intangible assets are summarized as follows:

	<u>Patens</u>	<u>Software</u>	<u>Photo Masks</u>
Useful Life	Finite	Finite	Finite
Amortization Method	5 years on straight-line basis	2-3 years on straight-line basis	3 years on straight-line basis
Sources	Externally acquired	Externally acquired	Externally acquired

(15) Impairment of non-financial assets

The Group assesses whether there is any indication that an asset within the scope of IAS 36 "Impairment of Assets" may be impaired at the end of each reporting period. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the recoverable amount of an individual asset or a CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A CGU, or group of CGUs, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the CGU (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations and a reversal of such impairment loss is recognized in profit or loss.

(16) Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

(17) Revenue recognition

The Group's revenue arising from contracts with customers mainly includes sale of goods and rendering of services. The accounting policies for the Group's types of revenue are explained as follows:

Sale of goods

The Group manufactures and sells merchandise. Sales are recognized when underlying goods have been shipped and customers have obtained the control (i.e. the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits from the goods). The main product of the Group is radio frequency integrated circuit chips and revenue is recognized based on the consideration stated in the contract.

The warranty provided by the Group is designed to assure that the goods will perform as the customers expect and is recorded according to the provisions of IAS 37.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

The credit period of the Group's sale of goods is between 30 days to 90 days. For most of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The period between the Group transfers the goods to customers and when the customers pay for that goods is usually short and there is no significant financing component to the contract. However, for some contracts, part of the consideration is received from customers upon signing the contract, then the Group has the obligation to provide the goods subsequently and it should be recognized as contract liabilities.

Rendering of services

The Group provides non-recurring engineering services. Revenues are recognized based on the stage of completion of the contracts.

The contractual considerations of the Group are received in accordance with the payment schedule set by the contracts. When the Group has performed the services to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. Besides, in accordance with IFRS 9, the Group measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses. However, for some rendering of services contracts, part of the consideration is received from customers upon signing the contract, then the Group has the obligation to provide the services subsequently and it should be recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component is arisen.

(18) Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that economic benefits of the grants will be received. When the grants are related to assets, the government grants are recognized as deferred revenue and recognized as income by installments over the expected useful life of the relevant assets. When the grants are related to expense items, the government grants are used to match the relevant costs in a reasonable and systematic way, and recognized as revenue in the expected period in which it occurs.

(19) Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company. Therefore, fund assets are not included in the Company's consolidated financial statements.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company makes a monthly contribution of no less than 6% of monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution is due.

(20) Share-based payment transactions

The cost of equity-settled transactions between the Group and its employees is recognized based on the fair value of the equity instruments on the grant date. The fair value of the equity instruments is determined by an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it is fully vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award substitutes for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The cost of restricted shares issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Group recognizes unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period.

(21) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by shareholders.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint agreements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Deferred tax assets are recognized for all deductible temporary differences, unused tax losses and carry forward of unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and carry forward of unused tax credits can be utilized, except:

- A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint agreements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Such deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**5. Critical Accounting Judgments, Assumptions and Key Sources of Estimation Uncertainty**

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. The uncertainty of critical assumptions and estimates may cause the material adjustment to the carrying amounts of assets or liabilities in the future periods.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Estimates and assumptions

At the reporting date, the assumptions and key sources of estimates uncertainty concerning the future may result in significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Details are discussed below:

A. Inventory

The estimate of the net realizable value of inventories is based on the fact that the inventory is damaged, completely or partially outdated or the selling price has fallen, etc., and is based on the most reliable evidence that the expected realizable amount of the inventory can be obtained when the estimation is performed. Please refer to Note 6(6) for details.

B. Income tax

Uncertainties exist with respect to the interpretation of complex tax laws and regulations, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made or future changes to such assumptions could cause adjustments to tax income and expense already recorded in the future. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax laws and regulations by the taxable entity and the responsible tax authority. Such discrepancies in interpretation may lead to a wide variety of issues depending on the conditions prevailing in the respective entity's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6(21) for details on the deferred tax assets the Group has not recognized as so of December 31, 2021.

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

**6. Contents of Significant Accounts**

## (1) Cash and cash equivalents

	December 31, 2021	December 31, 2020
Cash on hand	\$1,118	\$1,041
Checking and savings accounts	156,606	267,846
Time deposits	457,500	697,500
Total	<u>\$615,224</u>	<u>\$966,387</u>

## (2) Financial assets at fair value through profit or loss – current

	December 31, 2021	December 31, 2020
Financial assets mandatorily measured at fair value through profit or loss		
Listed company stocks	<u>\$328,372</u>	<u>\$114,046</u>

In 2021, the Group invested NT\$212,518 thousand in cash in 896 thousand shares of Class B preferred share, 2,543 thousand shares of Class C preferred share and 74 thousand shares of common stock of Fubon Financial Holdings Co., Ltd.

In 2020, the Group invested NT\$32,239 thousand in cash in 210 thousand shares of preferred share B of CTBC Financial Holding Co., Ltd. and 306 thousand shares of Class B preferred share of Fubon Financial Holdings Co., Ltd.

In 2020, the Group disposed of 169 thousand shares of preferred share B of CTBC Financial Holding Co., Ltd at a price of NT\$11,067 thousand.

Financial assets at fair value through profit or loss were not pledged.

## (3) Financial assets at fair value through other comprehensive income

	December 31, 2021	December 31, 2020
Financial assets at fair value through other comprehensive income – non-current		
Unlisted company stocks	<u>\$15,300</u>	<u>\$ -</u>

Part of the Group's financial assets was classified as financial assets at fair value through other comprehensive income and was not pledged. Please refer to Note 6(8) for details.

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

## (4) Financial assets at amortized cost – current

	December 31, 2021	December 31, 2020
Time deposits	\$14,700	\$14,700

## (5) Trade receivables

	December 31, 2021	December 31, 2020
Trade receivables	\$108,997	\$118,867
Less: allowance for doubtful debts	(19,701)	(392)
Subtotal	89,296	118,475
Trade receivables from related parties	595	-
Less: allowance for doubtful debts	-	-
Subtotal	595	-
Total	\$89,891	\$118,475

Trade receivables were not pledged.

Trade receivables are generally on 30-day to 90-day terms. The total carrying amounts were NT\$109,592 thousand and NT\$118,867 thousand as of December 31, 2021 and 2020, respectively. Please refer to Note 6(16) for details on impairment of trade receivables for the years ended December 31, 2021 and 2020, and refer to Note 12 for details on credit risk.

## (6) Inventories

	December 31, 2021	December 31, 2020
Raw materials	\$67,775	\$33,970
Work in process	90,749	51,897
Finished goods	110,654	45,825
Total	\$269,178	\$131,692

The cost of inventories recognized in expenses amounted to NT\$472,070 thousand and NT\$542,550 thousand, including reversal of write-down of inventories of NT\$117 thousand and write-down of inventories of NT\$4,024 thousand for the years ended December 31, 2021 and 2020. Because the inventories being written-down had been sold, the reversal of write-down was recognized and the cost of goods sold was reduced for the year ended December 31, 2021.

Inventories were not pledged.

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

## (7) Prepayments

	December 31, 2021	December 31, 2020
Inventory - prepaid	\$9,497	\$5,326
Input tax	318	528
Others	2,209	1,026
Total	<u>\$12,024</u>	<u>\$6,880</u>

Inventory-prepaid is the prepayment to the vendors of inventory.

## (8) Investments accounted for using the equity method

Details of investment accounted for using the equity method are as follows:

Investees	December 31, 2021		December 31, 2020	
	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership
Investments in associates:				
波克夏科技股份有限公司	\$ -	- %	\$22,178	14.63%
Investments in jointly controlled entities:				
深圳市傲科宏芯技术有限公司	9,223	49%	10,111	49%
Total	<u>\$9,223</u>		<u>\$32,289</u>	

## A. Investments in associates

波克夏科技股份有限公司 increased capital in cash in June 2020, and the Group did not subscribe to the new shares. Its ownership was therefore reduced from 17.14% to 14.63%. The influence over this associate remains, so it is still accounted for using the equity method. The Group's interest to this associate increased by NT\$3,573 thousand, and was recorded as changes in capital surplus from investments in associates and joint ventures accounted for using the equity method.

The directors and supervisors of 波克夏科技股份有限公司 were reelected on July 21, 2021, and the Group lost the significant influence over this associate thereafter. The investment was classified as financial assets at fair value through other comprehensive income, and resulted in NT\$1,890 thousand gains on disposal of investments accounted for using the equity method, which was recognized as other gains and losses.

The Group's investment in 波克夏科技股份有限公司 was not material. The following table summarizes financial information of the Group's share in the associates.

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	For the years ended December 31	
	2021	2020
Loss from continuing operations	\$(1,353)	\$(6,196)
Other comprehensive income	-	-
Total comprehensive income	\$(1,353)	\$(6,196)

## B. Investments in jointly controlled entities

The Group acquired 49% ownership of 深圳市傲科宏芯技術有限公司 by NT\$10,234 thousand in June, 2020.

The Group's investment in 深圳市傲科宏芯技術有限公司 was not material. The following table summarizes financial information of the Group's share in this entity

	For the years ended December 31	
	2021	2020
Loss from continuing operations	\$(807)	\$(619)
Other comprehensive income	-	-
Total comprehensive income	\$(807)	\$(619)

The associates and jointly controlled entities had no contingent liabilities or capital commitments, and investments in associates and jointly controlled entities were not pledged as of December 31, 2021 and 2020.

## (9) Property, plant and equipment

	December 31,		December 31,		Total	
	2021	2020	2021	2020		
Owner-occupied property, plant and equipment	\$226,155	\$225,318				
	Land	Buildings and facilities	Testing equipment	Office equipment	Transportation equipment	
Cost:						
As of January 1, 2021	\$128,490	\$84,968	\$27,942	\$6,615	\$2,500	\$250,515
Additions	-	-	8,925	3,265	-	12,190
Disposals	-	-	(5,453)	-	-	(5,453)
Exchange differences	-	-	-	(21)	-	(21)
As of December 31, 2021	\$128,490	\$84,968	\$31,414	\$9,859	\$2,500	\$257,231
As of January 1, 2020	\$128,490	\$84,968	\$23,459	\$5,155	\$2,500	\$244,572
Additions	-	-	7,034	1,714	-	8,748
Disposals	-	-	(2,551)	(272)	-	(2,823)
Exchange differences	-	-	-	18	-	18
As of December 31, 2020	\$128,490	\$84,968	\$27,942	\$6,615	\$2,500	\$250,515

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Land	Buildings and facilities	Testing equipment	Office equipment	Transportation equipment	Total
Depreciation and impairment:						
As of January 1, 2021	\$ -	\$7,960	\$13,270	\$3,092	\$875	\$25,197
Depreciation	-	1,699	6,461	2,681	500	11,341
Disposals	-	-	(5,453)	-	-	(5,453)
Exchange differences	-	-	-	(9)	-	(9)
As of December 31, 2021	<u>\$ -</u>	<u>\$9,659</u>	<u>\$14,278</u>	<u>\$5,764</u>	<u>\$1,375</u>	<u>\$31,076</u>
As of January 1, 2020	\$ -	\$6,261	\$10,074	\$1,799	\$375	\$18,509
Depreciation	-	1,699	5,747	1,547	500	9,493
Disposals	-	-	(2,551)	(272)	-	(2,823)
Exchange differences	-	-	-	18	-	18
As of December 31, 2020	<u>\$ -</u>	<u>\$7,960</u>	<u>\$13,270</u>	<u>\$3,092</u>	<u>\$875</u>	<u>\$25,197</u>
Net carrying amount as of:						
December 31, 2021	<u>\$128,490</u>	<u>\$75,309</u>	<u>\$17,136</u>	<u>\$4,095</u>	<u>\$1,125</u>	<u>\$226,155</u>
December 31, 2020	<u>\$128,490</u>	<u>\$77,008</u>	<u>\$14,672</u>	<u>\$3,523</u>	<u>\$1,625</u>	<u>\$225,318</u>

The property, plant and equipment were not under pledge.

## (10) Intangible assets

	Patents	Software	Photo Masks	Total
Cost:				
As of January 1, 2021	\$8,423	\$99,849	\$15,060	\$123,332
Additions-acquired separately	1,051	2,111	74,572	77,734
As of December 31, 2021	<u>\$9,474</u>	<u>\$101,960</u>	<u>\$89,632</u>	<u>\$201,066</u>
As of January 1, 2020	\$7,594	\$83,284	\$ -	\$90,878
Additions-acquired separately	829	16,565	15,060	32,454
As of December 31, 2020	<u>\$8,423</u>	<u>\$99,849</u>	<u>\$15,060</u>	<u>\$123,332</u>
Amortization and impairment:				
As of January 1, 2021	\$5,534	\$67,405	\$1,831	\$74,770
Amortization	1,229	22,491	18,653	42,373
As of December 31, 2021	<u>\$6,763</u>	<u>\$89,896</u>	<u>\$20,484</u>	<u>\$117,143</u>
As of January 1, 2020	\$4,321	\$38,922	\$ -	\$43,243
Amortization	1,213	28,483	1,831	31,527
As of December 31, 2020	<u>\$5,534</u>	<u>\$67,405</u>	<u>\$1,831</u>	<u>\$74,770</u>
Net carrying amount as of:				
December 31, 2021	<u>\$2,711</u>	<u>\$12,064</u>	<u>\$69,148</u>	<u>\$83,923</u>
December 31, 2020	<u>\$2,889</u>	<u>\$32,444</u>	<u>\$13,229</u>	<u>\$48,562</u>

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Amortization expenses of intangible assets are as follows:

	For the years ended December 31	
	2021	2020
R&D Expenses	\$42,373	\$31,527

(11) Other non-current assets

	For the years ended December 31	
	2021	2020
Prepayment - long term	\$1,754	\$1,754
Prepayment - equipment	1,059	-
Others	982	1,569
Total	\$3,795	\$3,323

(12) Post-employment benefits plans

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C., which requires that the monthly contribution rate shall be no less than 6% of each individual employee's salaries or wages. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

Pension benefits for employees of foreign subsidiaries are provided in accordance with the local regulations.

Pension expenses under the defined contribution plan were NT\$6,291 thousand and NT\$5,100 thousand for the years ended December 31, 2021 and 2020, respectively.

(13) Equity

A. Share capital

Approved by the Board of Directors, the Company issued restricted stocks for employees by 350 thousand shares on February 27, 2019, 50 thousand shares on May 6, 2019, 10 thousand shares on October 25, 2019, 378 thousand shares on April 30, 2020, 12 thousand

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shares on July 30, 2020, 243 thousand shares on November 11, 2020, 30 thousand shares on May 5, 2021 and 38 thousand shares on August 11, 2021. The capital increased by NT\$3,500 thousand, NT\$500 thousand, NT\$100 thousand, NT\$3,780 thousand, NT\$120 thousand, NT\$2,432 thousand, NT\$300 thousand and NT\$380 thousand for each issuance, respectively. Relevant regulators' approvals have been obtained and related registration processes have been completed, and the record dates of the aforementioned capital increase were April 25, 2019, May 24, 2019, November 20, 2019, May 14, 2020, August 7, 2020, November 17, 2020, May 13, 2021 and August 26, 2021, respectively.

On July 7, 2021, the general shareholders' meeting of the Company approved to increase capital by NT\$50,748 thousand from earnings by issuing 5,075 thousand shares at par value of NT\$10. The record date of capital increase was determined August 25, 2021. The related registration processes of the aforementioned capital increase have been completed on September 10, 2021.

The Company has redeemed and cancelled 34 thousand shares of issued restricted stocks for employees for the year ended December 31, 2021. Relevant regulators' approvals have been obtained and related registration processes have been completed.

The Company has redeemed 60 thousand shares of issued restricted stocks for employees for the year ended December 31, 2020. 40 thousand shares out of the aforementioned shares were not yet registered and therefore NT\$400 thousand were classified as stock to be cancelled as of December 31, 2020.

The Company issued 8 thousand new shares for the year ended December 31, 2021, at par value of NT\$10 for exercising employee stock options. The aforementioned new issued shares were not yet registered and therefore NT\$1,084 thousand were classified as capital collected in advance as of December 31, 2021.

The Company's authorized capital as of December 31, 2021 and 2020 was NT\$500,000 thousand, divided into 50,000 thousand shares (including 90 thousand shares reserved for exercise of employee stock options), each at a par value of NT\$10. The Company's issued capital was NT\$307,831 thousand and NT\$257,141 thousand divided into 30,783 thousand shares and 25,714 thousand shares as of December 31, 2021 and 2020, respectively. Each share has one voting right and a right to receive dividends.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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B. Capital surplus

	December 31, 2021	December 31, 2020
Additional paid-in capital	\$288,833	\$267,701
Employee stock options	3,891	3,999
Restricted stocks for employees	110,375	123,967
From share of changes in net assets of associates and jointly controlled entities accounted for using the equity method	-	3,573
Others	5,339	5,074
Total	<u>\$408,438</u>	<u>\$404,314</u>

According to the Company Act, the capital surplus shall not be used except for offsetting the deficit of the company. When a company incurs no loss, the capital surplus generated from the excess of the issuance price over the par value of share capital and donations may be allocated to capital with a limit to a certain percentage of paid-in capital. Such capital surplus may be distributed in the form of cash to its shareholders in proportion to the number of shares being held by each of them.

C. Treasury shares

	December 31, 2021	December 31, 2020
Amount	\$42,763	\$42,763
Share (in thousand)	340	340

The Company bought back 340 thousand common shares in the amount of NT\$42,763 thousand during the period from April to June of 2020 for issuance to the employees.

D. Retained earnings and dividend policy

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

- (a) Reserve for tax payments;
- (b) Offset accumulated losses in previous years, if any;
- (c) Legal reserve, which is 10% of leftover profits. However, this restriction does not apply in the event that the amount of the accumulated legal reserve equals or exceeds the Company's total paid-in capital;
- (d) Allocation or reverse of special reserves as required by law or government authorities;
- (e) According to Paragraph 1, Item 1 to Item 4 of the Article under the Company's Articles of Incorporation, the remaining net profits and the retained earnings from

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previous years will be allocated as shareholders' dividend. The shareholders' meeting shall determine to retain or distribute by a resolution.

According to Paragraph 5, Article 240 of the Company Act, the Company authorizes the distributable dividends and bonuses after a resolution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors, or, per Paragraph 1, Article 241 to distribute its legal reserve and capital surplus, in whole or in part, as dividend to its shareholders in cash, and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

Since the Company is in the technology-intensive high-tech industry that is in the growth phase, the residual dividend policy is adopted by the Company to ensure the solid growth and sustainable operations to strike a balance between shareholders' demand on cash flows and the Company's long-term capital planning. The dividend distribution plan shall account for the operation development and demand of cash flow in the future; therefore, the dividend distributed to shareholders shall be no less than 10% of distributable earnings of the year. The dividend may not be distributed when accumulated distributable earnings is less than 10% of paid-in capital. Shareholders' dividends may be distributed in the form of shares or cash, while cash dividends to be distributed may not be less than 10% of total dividends to be distributed.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total paid-in capital. The legal reserve can be used to offset the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Following the adoption of the IFRS for the preparation of financial reports, when distributing distributable earnings, the Company shall set aside amount to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

Details of the 2021 and 2020 earnings distributions and dividends per share as proposed and resolved by Board of Directors meeting and general shareholders' meeting on March 9, 2022 and July 7, 2021, respectively, are as follows:

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**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

	Appropriation of earnings		Dividends per share (NT\$)	
	2021	2020	2021	2020
Legal reserve	\$16,646	\$18,198	\$ -	\$ -
Special reserve (reversal)/appropriation	477	(608)	-	-
Cash dividends-common stock (Note)	152,216	126,871	5.0	5.0
Stock dividends-common stock	-	50,748	-	2.0

Note: The Board of Directors adopted a special resolution to distribute cash dividend for NT\$5 per share on March 9, 2022.

Note: The Board of Directors adopted a special resolution to distribute cash dividend for NT\$5 per share on March 24, 2021.

Please refer to Note 6(18) for details on estimate basis and amount recognized of the compensation to employees and the remuneration to directors.

(14) Share-based payment plans

The employees of the Company are entitled to share-based payment as part of their remuneration. Services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

A. Share-based payment plans in the parent company of the Group

On April 19, 2017, the Company was authorized by the Securities and Futures Bureau of FSC, Executive Yuan, to issue employee stock options of 167 thousand units, each unit eligible to subscribe for one common share. The exercise price equals to the closing price of the Company's common stock on the grant date. The options are exercisable at certain percentage and timeline subsequent to the second, third and fourth anniversary of the grant date. It is deemed the issuance of new shares when the options are exercised.

The fair value of option is determined on the grant date based on the Binominal Option Pricing Model, and the terms and conditions of the contract are taken into account when setting up the inputs and assumptions.

The contract period of this stock option plan is 6 years without cash-settlement option. Cash-settlement has not been an option to the stock options granted by the Company under such plan.

Detail information relevant to the share-based payment plans is as follows:

<u>Date of grant</u>	<u>Total number of options granted</u>	<u>Exercise price (Note)</u>
August 10, 2017	167 thousand	NT\$135.5

Note: The exercise prices shall be adjusted to reflect the change of outstanding common shares.

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Per the share-based payment plans above, the assumptions and pricing model used are disclosed as follows:

	Issue Day: August 10, 2017
Expected dividend yield	0%
Expected volatility	21.23% - 21.83%
Risk free interest rate	0.6924% - 0.7594%
Expected life	4-5 Years
Exercise price	NT\$191.5
Pricing model	Binominal Option Pricing Model

The expected life of the share options is based on historical data and current expectations, and is not necessarily indicative of actual exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The following table contains further details on the aforementioned share-based payment plans:

	For the years ended December 31			
	2021		2020	
	Outstanding options (thousand units)	Weighted-average exercise price (NT\$)	Outstanding options (thousand units)	Weighted-average exercise price (NT\$)
Employee Stock Options				
Outstanding at beginning of period	98	\$167.3	98	\$176.7
Forfeited	-	-	-	-
Exercised (Note)	(8)	135.5	-	-
Outstanding at end of period	90	135.5	98	167.3
Exercisable at end of period	90		71.5	
Weighted-average fair value of options granted during the period (NT\$)	\$ -		\$ -	

Note: For the year ended December 31, 2021, the weighted average share price was NT\$343 at the date of exercise of those options.

The information of the outstanding share-based payment plans as of December 31, 2021 and 2020 is as follows:

	Range of exercise price (NT\$)	Weighted-average expected remaining years
December 31, 2021		
Outstanding stock options	\$135.5	1.583
December 31, 2020		
Outstanding stock options	\$167.3	2.583

**B. Restricted stocks plan for employees in the parent company of the Group**

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Per the Plan, the new restricted stocks were granted to employees on February 27, 2019, May 6, 2019, October 25, 2019, April 30, 2020 and July 30, 2020, respectively. During the vesting period, employees are subject to the terms and conditions as follows:

- (a) Employees may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted employee shares.
- (b) Employees are able to receive stock dividend and cash dividend, but excluded from subscribing shares of capital increase by cash.
- (c) Upon issuance, the new restricted stocks shall be handed over to the custodian organizations according to the trust contracts. During the vesting period, employees are not allowed to request for returning the stocks from the trustee for any reason or any way.

Those new restricted stocks shall be deemed failing the vesting conditions on the effective day when an employee voluntarily resigns, retires or is laid off during the vesting period. The Company will redeem the issued restricted employee shares at the issued price and cancel the full number of the share.

Per the Plan, the new restricted stocks were granted to employees on November 11, 2020, May 5, 2021, and August 11, 2021, respectively. During the vesting period, employees are subject to the terms and conditions as follows:

- (a) Employees may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted employee shares.
- (b) During the vesting period, the rights of attending shareholders' meeting, proposal, speech, resolution and voting, etc. will be exercised by the custodian institutes or banks according to the trust contracts.
- (c) Employees shall not be able to receive stock dividend and cash dividend, and subscribe to shares of capital increase by cash.

Those new restricted stocks shall be deemed failing the vesting conditions on the effective day when an employee voluntarily resigns, retires or is laid off during the vesting period. The Company will redeem the issued restricted employee shares and cancel the full number of the share.

The information on the outstanding restricted stocks as of December 31, 2021 is as follows:

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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Date of grant	Shares issued (thousand)	Exercise price (NT\$)	Fair value per unit (NT\$)	Restricted shares as of December 31, 2021 (thousand)
February 27, 2019	350	\$95.7	\$63.8	163
May 6, 2019	50	\$97.5	\$65.0	30
October 25, 2019	10	\$109.8	\$73.2	4
April 30, 2020	378	\$75.6	\$50.4	348
July 30, 2020	12	\$82.8	\$55.2	12
November 11, 2020	243	\$ -	\$129.0	233
May 5, 2021	30	\$ -	\$146.5	30
August 11, 2021	38	\$ -	\$227.5	32

The Group recognized NT\$26,794 thousand as compensation expense for the year ended December 31, 2021. NT\$110,375 thousand and NT\$32,584 thousand were recorded as capital surplus-restricted stocks and unearned employee compensation as of December 31, 2021, respectively.

The Group recognized NT\$14,417 thousand as compensation expense for the year ended December 31, 2020. NT\$123,967 thousand and NT\$49,995 thousand were captured as capital surplus-restricted stocks and unearned employee compensation as of December 31, 2020, respectively.

C. Share-based compensation expenses recognized for employee services received are shown in the following table:

	For the years ended December 31	
	2021	2020
Employee stock options	\$158	\$459
Restricted stocks for employees	26,794	14,417
Total	\$26,952	\$14,876

The Company did not modify or cancel any share-based payment plans for the years ended December 31, 2021 and 2020.

## (15) Sales

Analysis of revenue from contracts with customers for the years ended December 31, 2021 and 2020 is as follows:

## A. Disaggregation of revenue

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	<u>For the years ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Sale of goods	\$969,983	\$1,002,456
Services	61,231	60,395
Total	<u>\$1,031,214</u>	<u>\$1,062,851</u>
	<u>For the years ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Revenue recognition point:		
At a point in time	\$969,983	\$1,002,456
Satisfied the performance obligation over time	61,231	60,395
Total	<u>\$1,031,214</u>	<u>\$1,062,851</u>

**B. Contract balances**

## Contract liabilities – current

	<u>December 31, 2021</u>	<u>December 31, 2020</u>	<u>January 1, 2020</u>
Sale of goods	\$5,489	\$4,815	\$4,332
Services	3,131	1,117	-
Total	<u>\$8,620</u>	<u>\$5,932</u>	<u>\$4,332</u>

The significant changes in the Group's balances of contract liabilities for the years ended December 30, 2021 and 2020 are as follows:

	<u>For the years ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Revenue recognized during the period that was included in the beginning balance	\$5,932	\$4,332
Increase in receipt in advance during the period (deducting the amount incurred and transferred to revenue during the period)	8,620	5,932

**C. Transaction price allocated to unsatisfied performance obligations**

As of December 31, 2021, no disclosure of the unsatisfied performance obligations is required as the Group's contract terms with customers regarding the sales of goods were all less than one year. Besides, the summarized amounts of transaction price allocated to unsatisfied performance obligations regarding rendering of service were NT\$62,129 thousand. The Group recognizes revenues in accordance with the stage of completion of the contracts. Those contracts were expected to be completed within the next 4 to 18 months.

As of December 31, 2020, no disclosure of the unsatisfied performance obligations is

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required as the Group's contract terms with customers regarding the sales of goods were all less than one year. Besides, the summarized amounts of transaction price allocated to unsatisfied performance obligations regarding rendering of service were NT\$65,316 thousand. The Group recognizes revenues in accordance with the stage of completion of the contracts. Those contracts were expected to be completed within the following 6 to 11 months.

D. Assets recognized via acquisition or cost of fulfill a contract

	December 31, 2021	December 31, 2020
Cost to fulfill a contract - current	<u>\$11,939</u>	<u>\$8,453</u>

Cost to fulfill a contract is the costs incurred when the Group dedicates to the non-recurring engineering projects, and will be reclassified as operation costs when related sales revenue is recognized.

NT\$11,112 thousand and zero amortization were recorded as operation costs for the years ended December 31, 2021 and 2020.

(16) Expected credit losses

	For the years ended December 31	
	2021	2020
Operating expense- Expected credit losses		
Trade receivables	<u>\$19,309</u>	<u>\$390</u>

Please refer to Note 12 for details on credit risk.

The Group measures the loss allowance of its receivables at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance as of December 31, 2021 and 2020 is as follow:

When grouping receivables, the Group considers factors such as counterparties' credit ratings, geographical regions and industry sectors. Loss allowance is measured by a provision matrix. Details are as follows:

December 31, 2021	Neither past due	Past due					Total
		< 30 days	31-60 days	61-90 days	91-120 days	> 121 days	
Group 1							
Gross carrying amount	\$74,188	\$ -	\$ -	\$ -	\$ -	\$ -	\$74,188
Loss ratio	0%	5%	10%	30%	70%	100%	
Lifetime expected credit losses	-	-	-	-	-	-	-
Subtotal	<u>\$74,188</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$74,188</u>

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Group 2	Neither past due	Past due					Total
		< 120 days	121-150 days	151-180 days	181-270 days	> 271 days	
Gross carrying amount	\$15,703	\$ -	\$ -	\$ -	\$ -	\$19,701	\$35,404
Loss ratio	0%	0%	5%	10%	30%	70% - 100%	
Lifetime expected credit losses	-	-	-	-	-	(19,701)	(19,701)
Subtotal	\$15,703	\$ -	\$ -	\$ -	\$ -	\$ -	\$15,703
Carrying amount							\$89,891

  

December 31, 2020	Neither past due	Past due					Total
		< 30 days	31-60 days	61-90 days	91-120 days	> 121 days	
Gross carrying amount	\$114,950	\$ -	\$3,917	\$ -	\$ -	\$ -	\$118,867
Loss ratio	0%	5%	10%	30%	70%	100%	
Lifetime expected credit losses	-	-	(392)	-	-	-	(392)
Carrying amount	\$114,950	\$ -	\$3,525	\$ -	\$ -	\$ -	\$118,475

The movements in the provision for impairment of receivables for the years ended December 31, 2021 and 2020 are as follows:

	Trade receivables
As of January 1, 2021	\$392
Allowance for the current period	19,309
As of December 31, 2021	\$19,701
As of January 1, 2020	\$2
Allowance for the current period	390
As of December 31, 2020	\$392

## (17) Leases

The Group as lessee

The Group leases various property including buildings and office equipment. The leases have terms between 1 to 4 years.

The impacts of leases on the Group's financial performance and cash flows are as follows:

## A. Amount reported on the Balance Sheet

## (a) Right-of-use asset

Carrying amount of right-of-use assets

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	December 31, 2021	December 31, 2020
Buildings and facilities	<u>\$9,784</u>	<u>\$7,349</u>

For the years ended December 30, 2021 and 2020, the additions to right-of-use assets of the Group amounted to NT\$9,249 thousand and zero, respectively.

(b) Lease liability

	December 31, 2021	December 31, 2020
Lease liability	<u>\$9,622</u>	<u>\$7,226</u>
Lease liability-current	\$7,159	\$3,072
Lease liability-noncurrent	<u>2,463</u>	<u>4,154</u>
Total	<u>\$9,622</u>	<u>\$7,226</u>

Please refer to Note 6(19)D for the interest expenses on lease liability recognized, and Note 12(5) for the maturity analysis of lease liabilities for the years ended December 31, 2021 and 2020.

B. Amount reported on the Statement of Comprehensive Income

Depreciation charge for right-of-use asset

	For the years ended December 31	
	2021	2020
Buildings and facilities	<u>\$6,743</u>	<u>\$2,975</u>

C. Income and costs relating to leasing activities

	For the years ended December 31	
	2021	2020
Expense relating to short-term leases	\$799	\$1,049
Expense relating to leases of low-value assets	26	23
Total	<u>\$825</u>	<u>\$1,072</u>

D. Cash outflow relating to leasing activities

For the years ended December 31, 2021 and 2020, the Group's total cash outflows for leases amounted to NT\$7,678 thousand and NT\$4,140 thousand, respectively.

E. Other information relating to leasing activities

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

## Options to extend the lease

Some of property contracts provide the Group options to extend the leases. The lease term is the sum of non-cancellable period of underlying right-of-use assets and the period the extension option offers with reasonable assurance that the Group shall exercise. Exercising such option shall maximize the operation flexibility of lease contract management. The option shall be exercised by the Group and the Group only. Once the contract begins, the Group shall re-assess the lease term when significant item occurs or situation changes significantly (i.e. under lessee's control, and will impact if the Group shall reasonably assure to exercise the option excluded from the original determination of lease term, or shall not exercise the option included in the original determination of lease term).

(18) Employee benefits, depreciation and amortization expenses are summarized by function as follows:

Functions Nature	For the years ended December 31					
	2021			2020		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Payroll	\$ -	\$217,390	\$217,390	\$ -	\$177,732	\$177,732
Labor/Health insurance	-	11,940	11,940	-	8,083	8,083
Pension	-	6,291	6,291	-	5,100	5,100
Meals	-	2,660	2,660	-	2,171	2,171
Others	-	7,430	7,430	-	7,200	7,200
Depreciation	-	18,084	18,084	-	12,468	12,468
Amortization	-	42,373	42,373	-	31,527	31,527

According to the Articles of Incorporation of the Company, no less than 4% of profit of the current year is distributable as employees' compensation and no more than 4% of profit of the current year is distributable as remuneration to directors. However, the Company's accumulated losses shall have been covered, if any. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors is available at the Market Observation Post System of the TWSE.

Based on profits of the years, the Company accrued NT\$42,000 thousand and NT\$7,200 thousand for employees' compensation and remuneration to directors of the years ended December 31, 2021 and 2020, respectively. The employees' compensation and remuneration to

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

directors were recognized as salary expenses.

A resolution was approved in a meeting of the Board of Directors held on March 9, 2022 to distribute NT\$42,000 thousand and NT\$7,200 thousand in cash as 2021 employees' compensation and remuneration to directors, respectively.

There was no material difference between the actual distribution of employees' compensation and remuneration to directors and the amounts charged against earnings in 2020.

(19) Non-operating incomes and expenses

A. Interest income

	For the years ended December 31	
	2021	2020
Financial assets at amortized cost	\$3,629	\$5,049

B. Other income

	For the years ended December 31	
	2021	2020
Government grants	\$9,173	\$4,789
Dividend income	5,852	3,256
Other income-others	437	285
Total	\$15,462	\$8,330

C. Other gains and losses

	For the years ended December 31	
	2021	2020
Net foreign exchange gains/(losses)	\$(4,650)	\$(6,641)
Gains/(losses) on financial assets at fair value through profit or loss	1,808	(764)
Gains on disposal of investments accounted for using the equity method	1,890	-
Others	(254)	(1,036)
Total	\$(1,206)	\$(8,441)

D. Finance costs

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

	For the years ended December 31	
	2021	2020
Interest expense on lease liabilities	\$323	\$274

(20) Components of other comprehensive income

For the year ended December 31, 2021:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income	\$(3,842)	\$ -	\$(3,842)	\$ -	\$(3,842)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(477)	-	(477)	-	(477)
Total	\$(4,319)	\$ -	\$(4,319)	\$ -	\$(4,319)

For the year ended December 31, 2020:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax (expense)	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	\$608	\$ -	\$608	\$ -	\$608

(21) Income tax

The major components of income tax expense (income) are as follows:

Income tax recognized in profit or loss

	For the years ended December 31	
	2021	2020
Current income tax expense:		
Current income tax	\$36,505	\$48,181
Tax expense of prior periods recognized in the period	(18,540)	(16,431)
Deferred tax (income) expense:		
Deferred tax expense (income) relating to origination and reversal of temporary differences	461	(681)
Income tax recognized in profit and loss	\$18,426	\$31,069

A reconciliation between tax expense and the product of accounting profit multiplied by

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

applicable tax rates to the parent company is as follows:

	For the years ended December 31	
	2021	2020
Accounting profit before tax from continuing operations	\$184,890	\$213,045
Tax expense at applicable rate to the parent company	\$36,978	\$42,609
Tax effect of revenues exempt from taxation	(107)	1,239
Tax effect of deferred tax assets/liabilities	54	236
Corporate income surtax on undistributed retained earnings	-	3,547
Tax at the domestic rates applicable to profits in other tax jurisdictions	(67)	39
Tax expense of prior periods recognized in the period	(18,540)	(16,431)
Others	108	(170)
Total income tax expense recognized in profit or loss	\$18,426	\$31,069

The balances related to deferred tax assets/(liabilities) are as follows:

For year ended December 31, 2021	Beginning balance	Recognized in profit or loss	Ending balance
Temporary differences			
Allowance for inventory valuation losses	\$2,247	\$(23)	\$2,224
Unrealized foreign exchange losses	485	62	547
Unrealized foreign exchange gains	(409)	252	(157)
Unrealized allowance for financial assets valuation	(205)	(752)	(957)
Deferred tax income (expense)		\$(461)	
Net deferred tax asset	\$2,118		\$1,657
Reflected in balance sheet as follows:			
Deferred tax assets	\$2,732		\$2,771
Deferred tax liabilities	\$(614)		\$(1,114)
For year ended December 31, 2020	Beginning balance	Recognized in profit or loss	Ending balance
Temporary differences			
Allowance for inventory valuation losses	\$1,907	\$340	\$2,247
Unrealized foreign exchange losses	651	(166)	485
Unrealized foreign exchange gains	(370)	(39)	(409)
Unrealized allowance for financial assets valuation	(751)	546	(205)
Deferred tax income (expense)		\$681	
Net deferred tax asset	\$1,437		\$2,118
Reflected in balance sheet as follows:			
Deferred tax assets	\$2,558		\$2,732
Deferred tax liabilities	\$(1,121)		\$(614)
<u>Unrecognized deferred tax assets</u>			

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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The Group's unrecognized deferred tax assets were NT\$170 thousand and NT\$28 thousand as of December 31, 2021 and 2020, respectively.

Unrecognized deferred tax liabilities related investments in subsidiaries

The Group does not recognize the deferred tax liabilities of income tax payable resulting from the undistributed earnings of foreign subsidiaries once the Group receives it. The Group has determined that the undistributed earnings of subsidiaries will not be distributed in the foreseeable future. The unrecognized deferred tax liabilities from taxable temporary differences were NT\$67 thousand and NT\$106 thousand as of December 31, 2021 and 2020, respectively.

Assessment of income tax returns

The income tax returns of the Company have been assessed and approved up to 2019 as of December 31, 2021.

(22) Earnings per share

Basic earnings per share is calculated by dividing net profit for the period attributable to ordinary equity owners of the parent entity by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit for the period attributable to ordinary equity owners of the parent entity by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

A. Basic earnings per share	For the years ended December 31	
	2021	2020*
Net profit attributable to ordinary equity owners of the parent (thousand NT\$)	\$166,464	\$181,976
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	29,458	29,409
Basic earnings per share (NT\$)	\$5.65	\$6.19

B. Diluted earnings per share	For the years ended December 31	
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## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	2021	2020*
Net profit attributable to ordinary equity owners of the parent after dilution (thousand NT\$)	\$166,464	\$181,976
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	29,458	29,409
Effect of dilution:		
Employees' compensation-stock (thousand shares)	178	357
Employee stock options (thousand shares)	53	-
Restricted stocks for employees (thousand shares)	585	119
Weighted average number of ordinary shares outstanding after dilution (thousand shares)	30,274	29,885
Diluted earnings per share (NT\$)	\$5.50	\$6.09

\* Retroactively adjusted

The impact of bonus stocks has been retroactively adjusted in the calculation of earnings per share.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements was authorized for issue.

**7. Related Party Transactions**

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

Name and nature of relationship of the related parties

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
深圳市傲科宏芯技術有限公司	Jointly controlled by a subsidiary
波克夏科技股份有限公司 (Note)	Associate of the Company

Note: The Company lost the significant influence over 波克夏科技股份有限公司 since July 21, 2021, so it is not an associate to the Company thereafter.

Significant transactions with the related parties

## (1) Sales

	<u>For the years ended December 31</u>	
	2021	2020
Jointly controlled by a subsidiary	\$4,146	\$178
Associate of the Company	204	-
Total	\$4,350	\$178

The Company's selling price to related parties is determined by both parties with reference to

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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market price information, and trade credit terms for related parties is month end 30 days.

(2) Trade receivables from related parties, net

	December 31, 2021	December 31, 2020
深圳市傲科宏芯技術有限公司	<u>\$595</u>	<u>\$ -</u>

(3) Key management personnel compensation of the Group

	For the years ended December 31	
	2021	2020
Short-term employee benefits	\$45,668	\$42,895
Post-employment benefits	756	754
Share-based payment	8,449	5,507
Total	<u>\$54,873</u>	<u>\$49,156</u>

**8. Assets Pledged as Collateral**

None

**9. Contingencies and Off Balance Sheet Commitments**

None

**10. Losses due to Major Disasters**

None

**11. Significant Subsequent Events**

None

**12. Others**

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

## (1) Categories of financial instruments

Financial assets

	December 31, 2021	December 31, 2020
Financial assets at fair value through profit or loss:		
Mandatorily measured at fair value through profit or loss	\$328,372	\$114,046
Financial assets at fair value through other comprehensive income	15,300	-
Financial assets measured at amortized cost (Note)	765,966	1,114,583
Total	<u>\$1,109,638</u>	<u>\$1,228,629</u>

Financial liabilities

	December 31, 2021	December 31, 2020
Financial liabilities at amortized cost:		
Trade payables	\$196,783	\$204,965
Lease liabilities	9,622	7,226
Deposits received	-	89
Total	<u>\$206,405</u>	<u>\$212,280</u>

Note: Include cash and cash equivalents (excluding cash on hand), financial assets measured at amortized cost, trade receivables (including related parties), other receivables and refundable deposits.

## (2) Objectives and policies of financial risk management

The Group's objective of financial risk management is primarily designed to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies, measures and manages the aforementioned risks based on the Group's policies and risk appetite.

The Group has established appropriate policies, procedures and internal controls for the aforementioned financial risk management. The plans for material treasury activities are reviewed by Board of Directors and Audit Committee in accordance with relevant regulations and internal controls. The Group complies with its financial risk management policies at all times.

## (3) Market risk

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market risk is comprised of foreign currency risk, interest rate risk and other price risks.

In practice, it is rarely the case that a single risk factor changes independently from other risk factors; there are usually interdependencies among risk factors. However, the sensitivity analysis disclosed below doesn't take the interdependencies among risk factors into account.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenues or expenses are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign operations.

Part of the Group's trade receivables and payables are dominated in the same foreign currencies, therefore, the hedging effect arises naturally when positions of receivables and payables are close. Furthermore, the net investments in foreign operations are not hedged by the Group as they are for strategic purposes.

The foreign currency sensitivity analysis of the change in foreign exchange rates on the Group's profit and equity is performed on major monetary items denominated in foreign currencies as of the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rate of USD. The information of the sensitivity analysis is as follows:

When NTD appreciates or depreciates against USD by 1%, the profit for the years ended December 31, 2021 and 2020 will decrease/increase by NT\$799 thousand and NT\$1,310 thousand, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuates because of interest rate changes in the market. The Group's exposure to the risk of interest rate changes in the market relates primarily to the time deposits at floating-rate. Because the time deposits have relatively short maturities, the risk to the Group's cash flows is low when interest rates change.

Price risk

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

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The listed and unlisted preferred shares and equity securities held by the Group are susceptible to market price risk arising from uncertainties with respect to the future values of the underlying securities. These preferred shares and equity securities are classified under the category of equity instrument investments measured at fair value through profit or loss and equity instrument investments measured at fair value through other comprehensive income. The Group manages the price risk through diversified investment approach and placing investment limits on individual and total preferred shares and equity securities. Reports on the preferred shares and equity securities portfolio are submitted to the Group's senior management on a regular basis. The Board of Directors reviews and approves all investments in preferred shares and equity securities according to level of authority.

A change of 1% in the price of the listed companies' preferred shares and stocks classified under equity instrument investments measured at fair value through profit or loss could cause the profit for the years ended December 31, 2021 and 2020 to increase/decrease by NT\$3,284 thousand and NT\$1,140 thousand, respectively.

Please refer to Note 12(8) for sensitivity analysis of other equity instruments whose fair value measurement is categorized as Level 3 of the fair value hierarchy.

(4) Credit risk management

Credit risk is the risk that counterparty will not fulfill its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for trade receivables) and from its financing activities, including bank deposits and other financial instruments.

Credit risk is managed by each business unit subject to the Group's established policies, procedures and controls relating to credit risk management. Credit risk assessments are established for all trading partners based on their financial positions, ratings from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria, etc. Certain trading partners' credit risk will also be managed by taking credit enhancement procedures.

As of December 31, 2021 and 2020, receivables from top ten customers represented 70.21% and 75.74% of the total trade receivables of the Group, respectively. The credit concentration risk of other trade receivables was insignificant.

The Group's finance department manages exposure to credit risk arising from bank deposits, fixed-income securities and other financial instruments according to the Group's policies. The counterparties are selected based on the internal control procedures, and they are the

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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financial institutes, companies and government agencies at investment level with good credit ratings. Therefore, the management believes that the Group's exposure to default by those parties is not material.

The Group adopts IFRS 9 to assess the expected credit losses. The measurement information is described as follows:

Level of credit risk	Indicator	Measurement method for expected credit losses	Carrying amount	
			December 31, 2021	December 31, 2020
Simplified method (Note)	Not applicable	Lifetime expected credit losses	\$109,592	\$118,867

Note: The Group adopts simplified method (lifetime expected credit loss) to measure credit risk. It includes trade receivables.

Financial assets are written off when there is no realistic prospect of future recovery (the issuer or the debtor is in financial difficulties or bankruptcy).

(5) Liquidity risk management

The Group's objective is to maintain financial flexibility through the use of cash and cash equivalents. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings at floating interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial liabilities

	Less than 1 year	2-3 years	4-5 years	Total
As of December 31, 2021				
Trade payables	\$196,783	\$ -	\$ -	\$196,783
Lease liabilities	7,338	2,479	-	9,817
As of December 31, 2020				
Trade payables	\$204,965	\$ -	\$ -	\$204,965
Lease liabilities	3,259	4,241	-	7,500
Deposits received	-	89	-	89

(6) Reconciliation of liabilities arising from financing activities

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Reconciliation of liabilities for the year ended December 31, 2021:

	<u>Deposits received</u>	<u>Lease liabilities</u>
As of January 1, 2021	\$89	\$7,226
Cash flows	(89)	(6,530)
Non-cash flows		
Addition of the period	-	9,249
Foreign exchange movement	-	(323)
As of December 31, 2021	<u>\$ -</u>	<u>\$9,622</u>

Reconciliation of liabilities for the year ended December 31, 2020:

	<u>Deposits received</u>	<u>Lease liabilities</u>
As of January 1, 2020	\$ -	\$9,946
Cash flows	89	(2,794)
Non-cash flows		
Foreign exchange movement	-	74
As of December 31, 2020	<u>\$89</u>	<u>\$7,226</u>

## (7) Fair values of financial instruments

A. The valuation techniques and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The following methods and assumptions are used to measure or disclose the fair values of financial assets and financial liabilities:

- (a) The carrying amount of cash and cash equivalents, trade receivables, financial assets measured at amortized cost, trade payables and other current liabilities approximate their fair values due to their short maturities.
- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair values are determined based on market quotation (e.g. listed stocks).
- (c) Fair value of equity instruments without market quotations (including private company equity securities) are estimated using the market approach and income approach valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other

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relevant information.

B. Information related to fair value measurement hierarchy of financial instruments

Please refer to Note 12(8) for details.

(8) Fair value measurement hierarchy

A. Definition of fair value measurement hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access on the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 can be directly or indirectly observed for the assets or liabilities.

Level 3: Inputs can't be observed for the assets or liabilities.

For assets and liabilities recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Category information of fair value measurement hierarchy

The Group does not have assets measured at fair value on a non-recurring basis; the following table presents the fair value measurement hierarchy of the Group's assets and liabilities on a recurring basis:

As of December 31, 2021:

<u>Assets measured at fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss:				
Stocks	<u>\$328,372</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$328,372</u>
Financial assets at fair value through other comprehensive income:				
Equity instruments measured at fair value through other comprehensive income	<u>\$ -</u>	<u>\$ -</u>	<u>\$15,300</u>	<u>\$15,300</u>

As of December 31, 2020:

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<u>Assets measured at fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss:				
Stocks	<u>\$114,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$114,046</u>

Transfers between Level 1 and Level 2 of the fair value hierarchy

For the Group's assets measured at fair value on a recurring basis, there was no transfer between Level 1 and Level 2 of the fair value hierarchy for the years ended December 31, 2021 and 2020.

The movement details of recurring fair value measurements in Level 3

Reconciliation of recurring assets and liabilities at fair value in Level 3 of the fair value hierarchy during the period is as follows:

	<u>Assets</u>
	<u>Financial assets at fair value through other comprehensive income</u>
	<u>Stocks</u>
As of January 1, 2021	\$ -
Reclassified in 2021	19,142
Total gains/(losses) recognized in 2021:	
Amount recognized in OCI (recorded as unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income)	(3,842)
As of December 31, 2021	<u>\$15,300</u>

For the year ended December 31, 2020: None

Information on significant unobservable inputs to valuation of fair value measurements categorized as Level 3 of the fair value hierarchy

The significant unobservable input used to measure the Group's recurring assets at fair value categorized as Level 3 of the fair value hierarchy is as follows:

As of December 31, 2021:

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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Financial Assets:	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of interrelationship between inputs and fair value
At fair value through other comprehensive income					
Stocks	Market approach and income approach	Lack of marketability and discount for minority interest	40%	The lower the marketability is, the lower the fair value estimate is	A change of 10% in the lack of marketability and discount for minority interest could decrease/increase the Group's equity by NT\$1,530 thousand

As of December 31, 2020: None

## (9) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	Unit: thousands					
	December 31, 2021			December 31, 2020		
	Foreign currency	Exchange rate	NT\$	Foreign currency	Exchange rate	NT\$
<u>Financial assets</u>						
Monetary items:						
USD	\$5,985	27.67	\$165,605	\$7,855	28.48	\$223,710
CNY	2,325	4.345	10,102	3,308	4.380	14,489
EUR	767	31.33	24,030	440	35.06	15,426
KRW	125,428	0.02340	2,935	109,474	0.02635	2,885
<u>Financial liabilities</u>						
Monetary items:						
USD	3,098	27.67	85,722	3,254	28.48	92,674
CNY	21	4.345	91	43	4.380	188
KRW	6,460	0.02340	151	1,411	0.02635	37
<u>Financial assets</u>						
Non-monetary items:						
CNY	2,123	4.345	9,223	2,309	4.380	10,111

Exchange gains/(losses) of monetary financial assets and liabilities	For the years ended December 31	
	2021	2020
	NT\$	NT\$
USD	\$(2,256)	\$(7,323)
CNY	(350)	324
EUR	(2,044)	358

The above information is disclosed based on the carrying amounts of foreign currencies

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(after conversion to the Group's functional currency.)

(10) Capital management

The Group's primary objective of capital management is to ensure to maintain a solid credit rating and healthy capital ratios to support business operations and maximize shareholders' value. The Group manages and adjusts capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may revise dividend payment to shareholders, return capital to shareholders or issue new shares.

**13. Additional Disclosures**

(1) Significant transactions information:

- A. Financing provided to others as of December 31, 2021: None
- B. Endorsement/guarantee provided to others as of December 31, 2021: None
- C. Securities held as of December 31, 2021 (excluding those of subsidiaries, associates and jointly controlled entities): Please refer to Attachment 1.
- D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital as of December 31, 2021: Please refer to Attachment 2.
- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital as of December 31, 2021: None.
- F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital as of December 31, 2021: None.
- G. Related party transactions for purchases and sales amounts exceeding the lower of NTS 100 million or 20 percent of the paid-in capital as of December 31, 2021: None.
- H. Receivables from related parties with amounts exceeding the lower of NTS 100 million or 20 percent of the paid-in capital as of December 31, 2021: None
- I. Financial instruments and derivative transactions: None.
- J. Others: The business relationships and significant transactions and amounts between the

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Company and subsidiaries, and among subsidiaries as of December 31, 2021: Please refer to Attachment 3.

(2) Information on investees

Relevant information of investee company name, locations, etc., over which the Group has direct or indirect significant influence or control: Please refer to Attachment 4.

(3) Investment in Mainland China

A. Relevant information of investee company name, main businesses, total paid-in capital, method of investment, accumulated inflows and outflows of investments from Taiwan, percentage of ownership, investment income (loss), carrying amount of investments, accumulated inward remittance of earnings and limits on investment in Mainland China: Please refer to Attachment 5.

B. Significant direct or indirect transactions with the investee companies in Mainland China on financial reports: Please refer to Attachment 3.

(4) Main shareholder information

Main shareholder information: There was no major shareholder holding the Company's shares up to 5% and above as of December 31, 2021.

**14. Segment Information**

(1) General information

The Group is involved in the research, design, manufacturing and sales of RF ICs, integrated video systems and related products. The chief operating decision makers review the overall operating results to make decisions regarding resources allocation and evaluate the overall performance. Therefore, the Group is aggregated into a single segment.

(2) Geographical information

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

A. Net sales from external customers

	For the years ended December 31	
	2021	2020
Taiwan	\$56,829	\$85,487
Hong Kong	504,205	593,709
China	325,434	283,799
Japan	51,121	17,598
Singapore	28,268	29,190
Korea	20,253	8,035
Others	45,104	45,033
Total	<u>\$1,031,214</u>	<u>\$1,062,851</u>

Net sales are classified by customers' countries.

B. Non-current assets

	December 31, 2021	December 31, 2020
Taiwan	\$310,720	\$272,536
China	9,119	8,693
Korea	23	-
Total	<u>\$319,862</u>	<u>\$281,229</u>

C. Major customers

Information regarding the sales to an individual customer accounting for at least 10% of net sales for the years ended December 31, 2021 and 2020 is listed below:

	For the years ended December 31	
	2021	2020
Customer A	<u>\$212,195</u>	<u>\$297,654</u>
Customer B	<u>\$121,059</u>	<u>Note</u>
Customer C	<u>Note</u>	<u>\$120,039</u>
Customer D	<u>Note</u>	<u>\$116,823</u>

Note: Sales did not exceed 10% of total net sales.

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**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**  
**SECURITIES HELD (EXCLUDING INVESTMENT IN SUBSIDIARIES, AFFILIATES AND JOINTLY CONTROLLED ENTITIES)**  
**As of December 31, 2021**

Attachment 1

(Amount in thousands of New Taiwan Dollars)

Held company name	Securities type	Securities name	Relationship with securities issuers	Financial statement account	December 31, 2021				If pledged
					Shares (thousand)	Carrying amount	Percentage of ownership	Fair value	
Rafael Microelectronics, Inc.	Common Shares	Fubon Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss- current	74	\$5,678	0.00%	\$5,678	None
	Class B Preferred Share	Fubon Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss- current	1,952	123,171	0.29%	123,171	None
	Class C Preferred Share	Fubon Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss- current	2,543	152,850	0.76%	152,850	None
	Preferred Share B	CTBC Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss- current	727	46,673	0.22%	46,673	None
	Common Shares	波克夏科技股份有限公司	-	Financial assets at fair value through other comprehensive income - non-current	6,000	15,300	11.76%	15,300	None

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

**INDIVIDUAL SECURITIES ACQUIRED OR DISPOSED OF WHICH ACCUMULATED AMOUNT EXCEEDING THE LOWER OF NT\$300 MILLIOM OR 20 PERCENT OF THE PAID-IN CAPITAL**  
**For the year ended December 31, 2021**

## Attachment 2

(Amounts in thousands of New Taiwan Dollars)

Company name	Type and name of marketable securities	Financial statement account	Counter party	Relation -ship	Beginning balance		Acquisition		Disposal				Ending balance (Note)	
					Units / shares (thousand)	Amount	Units / shares (thousand)	Amount	Units / shares (thousand)	Amount	Carrying amount	Gains (losses) on disposal	Units / shares (thousand)	Amount
Rafael Microelectronics, Inc.	Class B Preferred Share, Fubon Financial Holding Co., Ltd.	Financial assets at fair value through profit or loss-current	-	-	1,056	67,875	896	55,544	-	-	-	-	1,952	123,171
	Class C Preferred Share, Fubon Financial Holding Co., Ltd.	Financial assets at fair value through profit or loss-current	-	-	-	-	2,543	152,591	-	-	-	-	2,543	152,850

Note: The revaluation was included in the ending balance.

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**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**  
**THE BUSINESS RELATIONSHIP AND SIGNIFICANT TRANSACTIONS BETWEEN THE PARENT AND SUBSIDIARIES**  
**For the year ended December 31, 2021**

Attachment 3

(Amounts in thousands of New Taiwan Dollars)

No. (Note 1)	Company name	Counter party	Relationship (Note 2)	Intercompany transaction			
				Accounts	Amount	Transaction terms	Percentage of consolidated net sales or total assets (Note 3)
0	Rafael Microelectronics, Inc.	深圳宏觀微系統 科技有限公司	1	Research expenses	\$24,082	Based on contract terms	2.34%
0		Rafael Microelectronics Korea	1	Service expenses	4,105	Based on contract terms	0.40%

Note 1: The parent company and subsidiaries are coded as follows:

1. The Company is coded 0.
2. The subsidiaries are coded consecutively beginning with "1" in the order presented in the list above.

Note 2: The relationship type is categorized as follows: (The same transaction incurred between parent company and a subsidiary or between subsidiaries is disclosed once. For example, there is a transaction incurred between the parent company and a subsidiary, the subsidiary will not need to disclose repetitively when the transaction is disclosed by the parent company. Likewise, there is a transaction incurred between subsidiaries, one of the subsidiaries will not need to disclose repetitively when the transaction is disclosed by another subsidiary.)

1. The parent company to subsidiaries.
2. Subsidiaries to the parent company.
3. Subsidiaries to subsidiaries.

Note 3: Percentage of consolidated net sales or total assets is calculated as follows: for the balance sheet accounts, the ending balance of assets or liabilities divided by consolidated total assets, or for the income statement accounts, the interim accumulated amounts divided by consolidated net sales.

Note 4: The disclosure standard of above transactions between the parent company and subsidiaries are determined by the Company's materiality threshold.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEE (EXCLUDING INVESTEES IN MAINLAND CHINA)****As of December 31, 2021**

## Attachment 4

(Amounts in thousands of New Taiwan Dollars, USD)

Investor company	Investee company	Location	Main business	Original investment amount (Note 1)		Balance as of December 31, 2021			Net income (loss) of investee	Investment income (loss) recognized	Notes
				Ending balance	Beginning balance	Units / shares	Percentage of ownership	Carrying amount			
Rafael Microelectronics, Inc.	漢唐股份有限 公司	Seychelles	General investing	\$19,563 (US\$707,000)	\$15,689 (US\$567,000)	707,000	100.00%	\$20,357	\$(564)	\$(564)	The Company's subsidiary
	Rafael Microelectronics Korea	Korea	Promote RF IC products	2,460 (US\$88,898)	2,460 (US\$88,898)	200,000	100.00%	2,807	293	293	The Company's subsidiary
	波克夏科技股 份有限公司	Hsinchu County, Taiwan, R.O.C.	Design optical fiber products, and wholesaler and retailer of electronics materials	30,000 (Note 2)	30,000	6,000,000	11.76%	-	(9,245)	(1,353)	Investee using the equity method (Note 2)
漢唐股份有限公 司	宏宇股份有限 公司	Seychelles	General investing	19,494 (US\$704,500)	15,620 (US\$564,500)	704,500	100.00%	20,281	(564)	(564)	The Company's grandson company

Note 1: The amounts are converted at the exchange rates of December 31, 2021.

Note 2: The Company lost significant influence over the subsidiary, so the investment was recorded as financial assets at fair value through other comprehensive income. Please refer to Note 6(8) for details.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**  
**INFORMATION ON INVESTMENT IN MAINLAND CHINA**  
**For the year ended December 31, 2021**

Attachment 5

(Amounts in thousands of New Taiwan Dollars, USD, CNY)

Investee company in Mainland China	Main business	Paid-in capital	Investment method (Note 1)	Accumulated outflow of investment from Taiwan as of January 1, 2021	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2021	Net income (loss) of investee company	Direct or indirect percentage of ownership	Investment income (loss) recognized	Carrying amount as of December 31, 2021	Accumulated inward remittance of earnings as of December 31, 2021
					Outflow	Inflow						
深圳宏觀微系統科技有限公司	Technical consultation and services for RF IC products	\$9,685 (US\$350,000)	Indirect investment through investing entity at a third place (Note 3)	\$5,811 (US\$210,000)	\$3,874 (US\$140,000)	\$ -	\$9,685 (US\$350,000)	\$243	100.00%	\$243 (Note 2(2)(b))	\$10,844	\$ -
深圳市微科宏芯技術有限公司	Design, development, sales, technical consultation and services for optical fiber products	9,628 (US\$347,952.05)	Indirect investment through investing entity at a third place (Note 3)	9,628 (US\$347,952.05)	-	-	\$9,628 (US\$347,952.05)	(1,649)	49.00%	(807) (Note 2(2)(c))	9,223	-
深圳市宏芯智聯集成電路有限公司	Design and sell RF IC products	3,911 (CNY900,000)	Indirect investment through investing entity at a third place (Note 4)	-	3,911 (CNY900,000)	-	3,911 (CNY900,000)	14	100.00%	14 (Note 2(2)(b))	3,924	-

Accumulated investment in Mainland China as of December 31, 2021 (Note 5)	Investment amounts authorized by Investment Commission, MOEA (Note 5)	Upper limit on investment
\$23,186 (US\$837,952.05)	\$23,186 (US\$837,952.05)	\$894,749

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**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**  
**INFORMATION ON INVESTMENT IN MAINLAND CHINA**  
**For the year ended December 31, 2021**

Note 1: The methods for engaging in investment in Mainland China include the following:

- (1) Direct investment in Mainland China.
- (2) Indirect investment in Mainland China through companies registered in a third region. (Please provide the company name in the third region)
- (3) Other methods.

Note 2: The investment income (loss) recognized in current period:

- (1) Please specify no investment income (loss) has been recognized due to the investment is still in development phase.
- (2) The investment income (loss) was determined based on the following basis:
  - A. The financial statements were audited by an international accounting firm in cooperation with an R.O.C. accounting firm.
  - B. The financial statements were audited by independent auditors of the parent company in Taiwan
  - C. Others

Note 3: Investee, 漢唐股份有限公司, is registered at a third place, the investee, 宏宇股份有限公司, of 漢唐股份有限公司 invests the 2 companies at Shenzhen, China.

Note 4: Investee, 漢唐股份有限公司, is registered at a third place, and 宏宇股份有限公司 is the investee of 漢唐股份有限公司. 深圳市宏觀微系統科技有限公司 is a investee of 宏宇股份有限公司. 深圳市宏觀微系統科技有限公司 invests in 深圳市宏芯智聯集成電路有限公司.

Note 5: The amounts in foreign currency were converted at the exchange rates of December 31, 2021.