

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
WITH
REVIEW REPORT OF INDEPENDENT AUDITORS**

**FOR THE THREE MONTHS ENDED
MARCH 31, 2022 AND 2021**

Address: 8F, No. 28, Chenggong 12th St., Zhubei City, Hsinchu County, Taiwan (R.O.C.)
Telephone: (03) 550-6258

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.

Consolidated Financial Statements

Table of Contents

I.	Cover Page	1
II.	Table of Contents	2
III.	Review Report of Independent Auditors.....	3
IV.	Consolidated Balance Sheets	6
V.	Consolidated Statements of Comprehensive Income.....	8
VI.	Consolidated Statements of Changes in Equity	9
VII.	Consolidated Statements of Cash Flows	10
VIII.	Notes to Consolidated Financial Statements.....	11
	1. Organization and Operation	11
	2. Date and Procedures of Authorization of Financial Statements for Issue.....	11
	3. Newly Issued or Revised Standards and Interpretations.....	11
	4. Summary of Significant Accounting Policies	13
	5. Critical Accounting Judgments, Assumptions and Key Sources of Estimation Uncertainty.....	16
	6. Contents of Significant Accounts.....	16
	7. Related Party Transactions	37
	8. Assets Pledged as Collateral	38
	9. Contingencies and Off Balance Sheet Commitments	38
	10. Losses due to Major Disasters.....	38
	11. Significant Subsequent Events.....	38
	12. Others	39
	13. Additional Disclosures	48
	(1) Significant Transactions Information.....	48
	(2) Information on Investees.....	49
	(3) Investment in Mainland China	49
	(4) Information of Major Shareholders.....	49
	14. Segment Information.....	49

English Translation of a Report Originally Issued in Chinese

Review Report of Independent Auditors

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

Introduction

We have reviewed the accompanying consolidated balance sheets of Rafael Microelectronics, Inc. and its subsidiaries as of March 31, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2022 and 2021, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”). Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard No. 34, “Interim Financial Reporting” as endorsed and become effective by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 65, “Review of Financial Information Performed by the Independent Auditor of the Entity” of the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the auditing standards generally accepted in the Republic of China and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As explained in Note 4(3), the accompanying consolidated financial statements included the financial statements of non-significant subsidiaries, which statements reflected total assets amounting to NT\$31,440 thousand and NT\$29,622 thousand, constituting 1.70% and 1.67% of consolidated total assets as of March 31, 2022 and 2021, respectively, total liabilities amounting to NT\$7,251 thousand and NT\$12,039 thousand, constituting 1.49% and 2.85% of consolidated total liabilities as of March 31, 2022 and 2021, respectively, and total comprehensive income (loss) amounting to NT\$(7,464) thousand and NT\$(6,934) thousand, constituting (45.41)% and (18.07)% of consolidated

total comprehensive income (loss) for the three-month periods ended March 31, 2022 and 2021, respectively. These amounts disclosed in the accompanying consolidated financial statements were based on the unreviewed financial statements of consolidated subsidiaries. Besides, as explained in Note 6(8), the investments accounted for using the equity method for Rafael Microelectronics, Inc. and its subsidiaries were NT\$9,366 thousand and NT\$32,090 thousand as of March 31, 2022 and 2021, respectively, the share of income (loss) of associates and joint ventures accounted for using the equity method amounting to NT\$(199) thousand and NT\$(112) thousand for the three-month periods ended March 31, 2022 and 2021, respectively, and the share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method both nil for the three-month periods ended March 31, 2022 and 2021, respectively. These amounts disclosed in the accompanying consolidated financial statements were based on the unreviewed financial statements of investee companies. Additionally, as explained in Note 13, we did not review the related information of the aforementioned subsidiaries and investee companies disclosed in the accompanying consolidated financial statements.

Qualified Conclusion

Based on our reviews, except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements and related information of non-significant subsidiaries and investee companies accounted for using the equity method been reviewed by independent auditors, that we might have become aware of had it not been for the situation described above, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Rafael Microelectronics, Inc. and its subsidiaries as of March 31, 2022 and 2021, and their consolidated financial performance and cash flows for the three-month periods ended March 31, 2022 and 2021, in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and become effective by the Financial Supervisory Commission of the Republic of China.

Yang, Yu-Ni

Chiu, Wan-Ju

Ernst & Young, Taiwan

May 4, 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 review 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 March 31, 2022, December 31, 2021, and March 31, 2021

(March 31, 2022 and 2021 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	March 31, 2022	%	December 31, 2021	%	March 31, 2021	%
Current assets							
Cash and cash equivalents	6(1), 12	\$ 634,032	35	\$ 615,224	35	\$ 868,051	49
Financial assets at fair value through profit or loss-current	6(2), 12	371,826	20	328,372	19	167,579	9
Financial assets measured at amortized cost-current	6(4), 12	14,700	1	14,700	1	14,700	1
Trade receivables, net	6(5), 6(16), 12	77,388	4	89,296	5	115,228	7
Trade receivables from related parties, net	6(5), 6(16), 7, 12	708	-	595	-	144	-
Other receivables	12	19,871	1	46,313	3	14,720	1
Inventories	6(6)	359,873	20	269,178	15	127,509	7
Prepayments	6(7)	5,726	-	12,024	1	100,019	6
Other current assets	12	572	-	1,149	-	1,419	-
Cost to fulfill a contract-current	6(15)	20,088	-	11,939	1	11,955	-
Total current assets		1,504,784	81	1,388,790	80	1,421,324	80
Non-current assets							
Financial assets at fair value through other comprehensive income-non-current	6(3), 12	11,094	1	15,300	1	-	-
Investments accounted for using the equity method	6(8)	9,366	1	9,223	-	32,090	2
Property, plant and equipment	6(9)	229,006	13	226,155	13	227,493	13
Right-of-use assets	6(17)	8,887	-	9,784	1	15,175	1
Intangible assets	6(10)	82,073	4	83,923	5	70,775	4
Deferred tax assets	4	2,744	-	2,771	-	3,030	-
Other non-current assets	6(11), 12	2,826	-	3,795	-	2,809	-
Total non-current assets		345,996	19	350,951	20	351,372	20
Total assets		\$ 1,850,780	100	\$ 1,739,741	100	\$ 1,772,696	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 BALANCE SHEETS

As of March 31, 2022, December 31, 2021, and March 31, 2021

(March 31, 2022 and 2021 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	March 31, 2022	%	December 31, 2021	%	March 31, 2021	%
Current liabilities							
Contract liabilities-current	6(15)	\$ 118,106	6	\$ 8,620	-	\$ 6,363	-
Trade payables	12	65,543	4	79,291	5	100,624	6
Other payables	12	250,892	14	117,492	7	249,093	14
Current tax liabilities		36,119	2	31,693	2	50,124	3
Lease liabilities-current	6(17), 12	7,650	-	7,159	-	6,297	-
Other current liabilities-others		677	-	661	-	525	-
Total current liabilities		478,987	26	244,916	14	413,026	23
Non-current liabilities							
Deferred tax liabilities	4	1,470	-	1,114	-	838	-
Lease liabilities-non-current	6(17), 12	842	-	2,463	-	7,869	-
Deposits received	12	167	-	-	-	89	-
Other non-current liabilities-others	4, 6(14)	3,911	-	-	-	-	-
Total non-current liabilities		6,390	-	3,577	-	8,796	-
Total liabilities		485,377	26	248,493	14	421,822	23
Equity attributable to owners of the parent							
Share capital	6(13)						
Common stock		307,911	17	307,831	18	256,741	14
Capital collected in advance		5,420	-	1,084	-	-	-
Stock to be cancelled		(220)	-	-	-	-	-
Capital surplus	6(13), 6(14)	406,638	22	408,438	23	404,378	23
Retained earnings	6(13)						
Legal reserve		146,076	8	146,076	8	127,878	8
Special reserve		414	-	414	-	1,022	-
Unappropriated earnings		575,120	31	707,484	41	647,972	37
Total retained earnings		721,610	39	853,974	49	776,872	45
Other equity		(33,193)	(2)	(37,316)	(2)	(44,354)	(3)
Treasury shares	6(13)	(42,763)	(2)	(42,763)	(2)	(42,763)	(2)
Total equity		1,365,403	74	1,491,248	86	1,350,874	77
Total liabilities and equity		\$ 1,850,780	100	\$ 1,739,741	100	\$ 1,772,696	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
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three months ended March 31, 2022 and 2021
(Amounts in thousands of New Taiwan Dollars)

Description	Notes	Three Months Ended March 31			
		2022	%	2021	%
Net sales	6(15), 7	\$ 243,124	100	\$ 260,674	100
Operating costs	6(6)	(127,548)	(52)	(135,450)	(52)
Gross profit		115,576	48	125,224	48
Operating expenses	6(16), 6(17), 6(18)				
Selling expenses		(9,411)	(4)	(5,322)	(2)
General and administrative expenses		(12,563)	(5)	(11,062)	(4)
Research and development expenses		(73,746)	(30)	(56,829)	(22)
Expected credit gains (losses)		(679)	-	380	-
Total operating expenses		(96,399)	(39)	(72,833)	(28)
Operating income		19,177	9	52,391	20
Non-operating income and expenses	6(19)				
Interest income		617	-	963	-
Other income		837	-	59	-
Other gains and losses		3,908	2	(4,418)	(2)
Finance costs		(63)	-	(102)	-
Share of profit/(loss) of associates and joint ventures accounted for using the equity method	6(8)	(199)	-	(112)	-
Total non-operating income and expenses		5,100	2	(3,610)	(2)
Net income before income tax		24,277	11	48,781	18
Income tax expense	4, 6(21)	(4,425)	(2)	(10,167)	(4)
Net income		19,852	9	38,614	14
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		(4,206)	(2)	-	-
Items that may be reclassified subsequently to profit or loss					
Exchange differences resulting from translating the financial statements of foreign operations		792	-	(251)	-
Other comprehensive income net of tax		(3,414)	(2)	(251)	-
Total comprehensive income		\$ 16,438	7	\$ 38,363	14
Net income (loss) for the periods attributable to :					
Owners of the parent		\$ 19,852		\$ 38,614	
Comprehensive income (loss) for the periods attributable to :					
Owners of the parent		\$ 16,438		\$ 38,363	
Earnings Per Share (in New Taiwan Dollars)					
Basic Earnings Per Share					
Net income	6(22)	\$ 0.67		\$ 1.31	
Diluted Earnings Per Share					
Net income	6(22)	\$ 0.65		\$ 1.29	

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
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the three months ended March 31, 2022 and 2021
(Amounts 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, 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												
Cash dividends	-	-	-	-	-	-	(126,871)	-	-	-	-	(126,871)
Profit for the three months ended March 31, 2021	-	-	-	-	-	-	38,614	-	-	-	-	38,614
Other comprehensive income for the three months ended March 31, 2021	-	-	-	-	-	-	-	(251)	-	-	-	(251)
Total comprehensive income	-	-	-	-	-	-	38,614	(251)	-	-	-	38,363
Share-based payment transactions	(400)	-	400	64	-	-	-	-	-	6,305	-	6,369
Balance as of March 31, 2021	<u>\$ 256,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 404,378</u>	<u>\$ 127,878</u>	<u>\$ 1,022</u>	<u>\$ 647,972</u>	<u>\$ (664)</u>	<u>\$ -</u>	<u>\$ (43,690)</u>	<u>\$ (42,763)</u>	<u>\$ 1,350,874</u>
Balance as of January 1, 2022	\$ 307,831	\$ 1,084	\$ -	\$ 408,438	\$ 146,076	\$ 414	\$ 707,484	\$ (890)	\$ (3,842)	\$ (32,584)	\$ (42,763)	\$ 1,491,248
Appropriation and distribution of 2021 earnings												
Cash dividends	-	-	-	-	-	-	(152,216)	-	-	-	-	(152,216)
Profit for the three months ended March 31, 2022	-	-	-	-	-	-	19,852	-	-	-	-	19,852
Other comprehensive income for the three months ended March 31, 2022	-	-	-	-	-	-	-	792	(4,206)	-	-	(3,414)
Total comprehensive income	-	-	-	-	-	-	19,852	792	(4,206)	-	-	16,438
Share-based payment transactions	80	4,336	(220)	(1,800)	-	-	-	-	-	7,537	-	9,933
Balance as of March 31, 2022	<u>\$ 307,911</u>	<u>\$ 5,420</u>	<u>\$ (220)</u>	<u>\$ 406,638</u>	<u>\$ 146,076</u>	<u>\$ 414</u>	<u>\$ 575,120</u>	<u>\$ (98)</u>	<u>\$ (8,048)</u>	<u>\$ (25,047)</u>	<u>\$ (42,763)</u>	<u>\$ 1,365,403</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
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2022 and 2021
(Amounts in thousands of New Taiwan Dollars)

Description	Three Months Ended March 31	
	2022	2021
Cash flows from operating activities		
Net income before income tax	\$ 24,277	\$ 48,781
Adjustments for:		
Profit or loss items		
Depreciation	4,892	4,128
Amortization	11,477	10,047
Expected credit losses (gains)	679	(380)
Net losses on financial assets and liabilities at fair value through profit or loss	1,491	2,011
Interest expenses	63	102
Interest income	(617)	(963)
Share-based payment expenses	9,619	6,369
Share of (profit)/loss of associates and joint ventures accounted for using the equity method	199	112
Changes in assets and liabilities relating to operating activities:		
Trade receivables	11,229	3,627
Trade receivables from related parties	(113)	(144)
Other receivables	26,438	327
Inventories	(90,695)	4,183
Prepayments	6,298	(93,139)
Other current assets	577	(1,155)
Cost to fulfill a contract	(8,149)	(3,502)
Contract liabilities	109,486	431
Trade payables	(13,748)	28,832
Other payables	(18,816)	(10,951)
Other current liabilities	16	(96)
Cash generated from (used in) operating activities	<u>74,603</u>	<u>(1,380)</u>
Interest received	621	963
Interest paid	(63)	(102)
Income tax refunded (paid)	384	(3,174)
Net cash provided by (used in) operating activities	<u>75,545</u>	<u>(3,693)</u>
Cash flows from investing activities		
Acquisition of financial assets at fair value through profit or loss	(44,945)	(55,544)
Acquisition of property, plant and equipment	(4,742)	(4,957)
Increase in refundable deposits	(90)	(12)
Acquisition of intangible assets	(9,627)	(32,260)
Decrease in other non-current assets	-	526
Net cash used in investing activities	<u>(59,404)</u>	<u>(92,247)</u>
Cash flows from financing activities		
Increase in deposits received	167	-
Cash payment for principal portion of lease liabilities	(1,863)	(2,238)
Proceeds from exercise of employee stock options	5,420	-
Expired restricted stock for employees	(1,195)	-
Net cash provided by (used in) financing activities	<u>2,529</u>	<u>(2,238)</u>
Effect of changes in exchange rate on cash and cash equivalents	138	(158)
Net increase (decrease) in cash and cash equivalents	18,808	(98,336)
Cash and cash equivalents at the beginning of the period	615,224	966,387
Cash and cash equivalents at the end of the period	<u>\$ 634,032</u>	<u>\$ 868,051</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 UNAUDITED 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. The major business activities of the Company are the R&D, design, manufacturing and marketing of radio frequency integrated circuits (“RF IC”), integrated RF systems and related products. The address of its registered office and principal place of business is 8F, No. 28, Chenggong 12th St., Zhubei City, Hsinchu County, Taiwan.

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

The consolidated financial statements for the three-month periods ended March 31, 2022 and 2021 of the Company and subsidiaries (the “Group”) were authorized for issue in accordance with a resolution of the Board of Directors on May 4, 2022.

3. Newly Issued or Revised Standards and Interpretations

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

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by the Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after January 1, 2022. The application of these new standards and amendments had no material effect on the Group.

(2) Standards or interpretations issued, revised or amended by IASB, but not yet endorsed by the FSC and not yet adopted by the Group as of the date the consolidated financial statements were issued 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)

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture as in a downstream transaction. 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 constitutes a business as defined in 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 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims.

Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

IFRS 17 was issued in May 2017 and amended in 2020 and 2021. The amendments include deferral of the date of initial application of IFRS 17 by two years to annual beginning on or after 1 January 2023 (from the original effective date of 1 January 2021); provide additional transition reliefs; simplify some requirements to reduce the costs of applying IFRS 17 and revise some requirements to make the results easier to explain. IFRS 17 replaces an interim Standard - IFRS 4 Insurance Contracts - from annual reporting periods beginning on or after 1 January 2023.

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

The amendments to paragraphs 69 to 76 of IAS 1 “Presentation of Financial Statements” are related to the classifications of liabilities as current or non-current.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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 introduce 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 the recognition exemption in paragraphs 15 and 24 of IAS 12 “Income Tax” so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

The aforementioned standards and interpretations issued by IASB have not yet been recognized by the FSC as of the date the consolidated financial statements were issued, the local effective dates are to be determined by the FSC. The aforementioned standards and interpretations have no material impact on the Group.

4. Summary of Significant Accounting Policies

(1) Statement of Compliance

The consolidated financial statements of the Group for the three-month periods ended March 31, 2022 and 2021 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and IAS 34 “Interim Financial Reporting” as endorsed and become effective by the 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.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars 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;
- 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 consistent accounting policies. All intra-group balances, transactions, 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.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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 activities	Percentage of ownership		
			March 31, 2022	December 31, 2021	March 31, 2021
The Company	漢唐股份有限公司	General investing	100%	100%	100%
The Company	Rafael Microelectronics Korea	Promote sales of RF IC products	100%	100%	100%
漢唐股份有限公司	宏宇股份有限公司	General investing	100%	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%	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%	100%	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.

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

The accompanying consolidated financial statements included the financial statements of the aforementioned subsidiaries, which statements reflected total assets amounting to NT\$31,440 thousand and NT\$29,622 thousand and total liabilities amounting to NT\$7,251 thousand and NT\$12,039 thousand as of March 31, 2022 and 2021, respectively, and total comprehensive income (loss) amounting to NT\$(7,464) thousand and NT\$(6,934) thousand for the three-month periods ended March 31, 2022 and 2021, respectively. These amounts disclosed in the accompanying consolidated financial statements were based on the unreviewed financial statements of consolidated subsidiaries.

- (4) Except for the accounting policies listed in Note 4(5) and 4(6), the same accounting policies have been followed in the consolidated financial statements for the three-month period ended March 31, 2022 as were applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2021. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2021.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(5) Income taxes

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. The average annual effective income tax rate is estimated by current income tax expenses only. Deferred income tax is recognized and measured according to IAS 12 “Income Tax” and follows the same accounting policies of the Group’s annual consolidated financial statements. When income tax rate changes occur in interim period, the effect on deferred income tax is recognized in profit or loss, other comprehensive income or equity at once.

(6) Cash-settled share-based payment transactions

The compensation cost of cash-settled share-based payment transactions between the Group and its employees is measured at the fair value of the liability incurred and recognized as expense with corresponding liability over the vesting period. The fair value of the liability is remeasured at the end of each reporting period and at the settlement date with the movement in fair value recognized through profit or loss for the period until the liability is settled.

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

The same critical accounting judgments, assumptions and key sources of estimation uncertainty have been followed in the consolidated financial statements for the three-month periods ended March 31, 2022 and 2021 as were applied in the preparation of the Group’s consolidated financial statements for the year ended December 31, 2021. Please refer to the consolidated financial statements for the year ended December 31, 2021.

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	March 31, 2022	December 31, 2021	March 31, 2021
Cash on hand	\$935	\$1,118	\$1,018
Checking and savings accounts	205,597	156,606	169,533
Time deposits	427,500	457,500	697,500
Total	<u>\$634,032</u>	<u>\$615,224</u>	<u>\$868,051</u>

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

	March 31, 2022	December 31, 2021	March 31, 2021
Financial assets mandatorily measured at fair value through profit or loss:			
Listed company stocks	<u>\$371,826</u>	<u>\$328,372</u>	<u>\$167,579</u>

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

In the first quarter of 2022, the Group invested NT\$44,945 thousand in cash in 4,830 thousand shares of preferred share B of China Development Financial Holding Corp.

In the first quarter of 2021, the Group invested NT\$55,544 thousand in cash in 896 thousand shares of Class B preferred share of Fubon Financial Holdings Co., Ltd.

The Group's financial assets at fair value through profit or loss were not pledged.

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

Equity instrument investments at fair value through other comprehensive income – non-current:	March 31, 2022	December 31, 2021	March 31, 2021
Unlisted company stocks	\$11,094	\$15,300	\$ -

Part of the Company'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.

(4) Financial assets measured at amortized cost – current

	March 31, 2022	December 31, 2021	March 31, 2021
Time deposits	\$14,700	\$14,700	\$14,700

(5) Trade receivables

	March 31, 2022	December 31, 2021	March 31, 2021
Trade receivables	\$97,768	\$108,997	\$115,240
Less: allowance for doubtful debts	(20,380)	(19,701)	(12)
Subtotal	77,388	89,296	115,228
Trade receivables from related parties	708	595	144
Less: allowance for doubtful debts	-	-	-
Subtotal	708	595	144
Total	\$78,096	\$89,891	\$115,372

The Group's trade receivables were not pledged.

Trade receivables are generally on 30-day to 90-day credit term. The total carrying amounts were NT\$98,476 thousand, NT\$109,592 thousand and NT\$115,384 thousand as of March 31, 2022, December 31, 2021 and March 31, 2021, respectively. Please refer to Note 6(16) for details on impairment of trade receivables for the three months ended March 31, 2022 and 2021, and refer to Note 12 for details on credit risk management.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(6) Inventories

	March 31, 2022	December 31, 2021	March 31, 2021
Raw materials	\$105,492	\$67,775	\$30,606
Work in process	114,677	90,749	62,044
Finished goods	139,704	110,654	34,859
Total	<u>\$359,873</u>	<u>\$269,178</u>	<u>\$127,509</u>

The cost of inventories recognized in expenses amounted to NT\$127,548 thousand and NT\$135,450 thousand, including reversal of write-down of inventories of NT\$59 thousand and write-down of inventories of NT\$(1,984) thousand for the three months ended March 31, 2022 and 2021, respectively. 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 three months ended March 31, 2022.

The aforementioned inventories were not pledged.

(7) Prepayments

	March 31, 2022	December 31, 2021	March 31, 2021
Inventory - prepaid	\$3,031	\$9,497	\$97,948
Input tax	328	318	834
Others	2,367	2,209	1,237
Total	<u>\$5,726</u>	<u>\$12,024</u>	<u>\$100,019</u>

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

(8) Investments accounted for using the equity method

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

Investees	March 31, 2022		December 31, 2021		March 31, 2021	
	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying Amount	Percentage of ownership
Investments in associates:						
波克夏科技股份有限公司	\$ -	- %	\$ -	- %	\$22,240	14.63%
Investments in jointly controlled entities:						
深圳市傲科宏芯技术有限公司	<u>9,366</u>	49%	<u>9,223</u>	49%	<u>9,850</u>	49%
Total	<u>\$9,366</u>		<u>\$9,223</u>		<u>\$32,090</u>	

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A. Investments in associates

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 in 2021.

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 this associate:

	Three months ended March 31	
	2022	2021
Loss from continuing operations	\$ -	\$62
Other comprehensive income	-	-
Total comprehensive income	<u>\$ -</u>	<u>\$62</u>

B. Investments in jointly controlled entities

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

	Three months ended March 31	
	2022	2021
Loss from continuing operations	\$(199)	\$(174)
Other comprehensive income	-	-
Total comprehensive income	<u>\$(199)</u>	<u>\$(174)</u>

The aforementioned associate and jointly controlled entity had no contingent liabilities or capital commitments, and investments in associates and jointly controlled entities were not pledged as of March 31, 2022, December 31, 2021 and March 31, 2021, respectively.

The investments accounted for using the equity method were NT\$9,366 thousand and NT\$32,090 thousand as of March 31, 2022 and 2021, respectively, the share of income (loss) of associates and joint ventures accounted for using the equity method amounting to NT\$(199) thousand and NT\$(112) thousand for the three months ended March 31, 2022 and 2021, respectively, and the share of comprehensive income (loss) of associates and joint ventures accounted for using the equity method both nil for the three months ended March 31, 2022 and 2021, respectively. These amounts disclosed were based on the unreviewed financial statements of investee companies.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(9) Property, plant and equipment

			March 31, 2022	December 31, 2021	March 31, 2021	
Owner-occupied property, plant and equipment			\$229,006	\$226,155	\$227,493	
Cost:	Land	Buildings and facilities	Testing equipment	Office equipment	Transportation equipment	Total
As of January 1, 2022	\$128,490	\$84,968	\$31,414	\$9,859	\$2,500	\$257,231
Additions	-	-	4,978	823	-	5,801
Disposals	-	-	(1,079)	(755)	-	(1,834)
Exchange differences	-	-	-	94	-	94
As of March 31, 2022	\$128,490	\$84,968	\$35,313	\$10,021	\$2,500	\$261,292
As of January 1, 2021	\$128,490	\$84,968	\$27,942	\$6,615	\$2,500	\$250,515
Additions	-	-	3,673	1,284	-	4,957
Disposals	-	-	(63)	-	-	(63)
Exchange differences	-	-	-	(22)	-	(22)
As of March 31, 2021	\$128,490	\$84,968	\$31,552	\$7,877	\$2,500	\$255,387
Depreciation and impairment:						
As of January 1, 2022	\$ -	\$9,659	\$14,278	\$5,764	\$1,375	\$31,076
Depreciation	-	425	1,705	724	125	2,979
Disposals	-	-	(1,079)	(755)	-	(1,834)
Exchange differences	-	-	1	64	-	65
As of March 31, 2022	\$ -	\$10,084	\$14,905	\$5,797	\$1,500	\$32,286
As of January 1, 2021	\$ -	\$7,960	\$13,270	\$3,092	\$875	\$25,197
Depreciation	-	425	1,674	547	125	2,771
Disposals	-	-	(63)	-	-	(63)
Exchange differences	-	-	-	(11)	-	(11)
As of March 31, 2021	\$ -	\$8,385	\$14,881	\$3,628	\$1,000	\$27,894
Net carrying amount as of:						
March 31, 2022	\$128,490	\$74,884	\$20,408	\$4,224	\$1,000	\$229,006
December 31, 2021	\$128,490	\$75,309	\$17,136	\$4,095	\$1,125	\$226,155
March 31, 2021	\$128,490	\$76,583	\$16,671	\$4,249	\$1,500	\$227,493

The Group's property, plant and equipment were not under pledge.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(10) Intangible assets

Cost:	Patents	Software	Photo Masks	Total
As of January 1, 2022	\$9,474	\$101,960	\$89,632	\$201,066
Additions-acquired separately	211	128	9,288	9,627
As of March 31, 2022	\$9,685	\$102,088	\$98,920	\$210,693
As of January 1, 2021	\$8,423	\$99,849	\$15,060	\$123,332
Additions-acquired separately	346	750	31,164	32,260
As of March 31, 2021	\$8,769	\$100,599	\$46,224	\$155,592
Amortization and impairment:				
As of January 1, 2022	\$6,763	\$89,896	\$20,484	\$117,143
Amortization	293	2,941	8,243	11,477
As of March 31, 2022	\$7,056	\$92,837	\$28,727	\$128,620
As of January 1, 2021	\$5,534	\$67,405	\$1,831	\$74,770
Amortization	318	6,811	2,918	10,047
As of March 31, 2021	\$5,852	\$74,216	\$4,749	\$84,817
Net carrying amount as of:				
March 31, 2022	\$2,629	\$9,251	\$70,193	\$82,073
December 31, 2021	\$2,711	\$12,064	\$69,148	\$83,923
March 31, 2021	\$2,917	\$26,383	\$41,475	\$70,775

Amortization expenses of intangible assets were as follows:

	Three months ended March 31	
	2022	2021
R&D Expenses	\$11,477	\$10,047

(11) Other non-current assets

	March 31, 2022	December 31, 2021	March 31, 2021
Prepayment - long term	\$1,754	\$1,754	\$1,754
Prepayment - equipment	-	1,059	-
Others	1,072	982	1,055
Total	\$2,826	\$3,795	\$2,809

(12) Post-employment benefits plans

Defined contribution plan

The Group's pension expenses under the defined contribution plan were NT\$1,730 thousand and NT\$1,429 thousand for the three months ended March 31, 2022 and 2021, respectively.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(13) Equity

A. Share capital

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 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.

The Company redeemed 22 thousand shares of issued restricted stocks for employees in the first quarter of 2022. The aforementioned shares were not yet registered and therefore NT\$220 thousand were classified as capital to be cancelled as of March 31, 2022.

In January 2022, the Company issued 40 thousand new common shares to employees who had exercised stock options, at a par value of NT\$10. The aforementioned shares were not yet registered and therefore NT\$5,420 thousand were classified as capital collected in advance as of March 31, 2022.

The Company's authorized capital as of March 31, 2022, December 31, 2021 and March 31, 2021 was NT\$500,000 thousand, divided into 50,000 thousand shares (including 50 thousand shares reserved for exercise of employee stock options), each at a par value of NT\$10. The Company's issued capital was NT\$307,911 thousand, NT\$307,831 thousand, and NT\$256,741 thousand, divided into 30,791 thousand shares, 30,783 thousand shares, and 25,674 thousand shares as of March 31, 2022, December 31, 2021 and March 31, 2021, respectively. Each share has one voting right and a right to receive dividends.

B. Capital surplus

	March 31, 2022	December 31, 2021	March 31, 2021
Additional paid-in capital	\$314,558	\$288,833	\$284,744
Employee stock options	3,586	3,891	3,798
Restricted stocks for employees	83,155	110,375	106,924
Share of changes in net assets of associates and jointly controlled entities	-	-	3,573
Others	5,339	5,339	5,339
Total	<u>\$406,638</u>	<u>\$408,438</u>	<u>\$404,378</u>

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

	March 31, 2022	December 31, 2021	March 31, 2021
Amount	\$42,763	\$42,763	\$42,763
Shares (in thousands)	340	340	340

The Company buys back shares for transfer to 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 reversal of special reserves as required by law or government authorities;
- (e) The shareholders' meeting shall determine by a resolution to retain or distribute the remaining net profits and the beginning balance of retained earnings.

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, in accordance with 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 conducts business in a technology-intensive high-tech industry and continues operating in its growth phase, the Company adopts the residual dividend policy 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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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. The 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 for the first time of IFRS', 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 corresponding amount of special reserve 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, were as follows:

	<u>Appropriation of earnings</u>		<u>Dividends per share (NT\$)</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Legal reserve	\$16,646	\$18,198	\$ -	\$ -
Appropriate/(reverse) special reserve	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 estimation basis and amount recognized of the compensation to employees and the remuneration to directors.

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

(14) Share-based payment plans

A. Employee stock option plan 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 option of 167 thousand units, each unit eligible to subscribe to 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. The new shares are issued when employees exercise the options.

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 life 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 aforementioned share-based payment plan 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.

The assumptions and pricing model used in the aforementioned share-based payment plan are stated as follows:

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

The expected life of the stock options is estimated 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.

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

Details of employee stock option plan of the Company were as follows:

Stock option	Three months ended March 31			
	2022		2021	
	Options (thousand units)	Weighted average exercise price (NT\$)	Options (thousand units)	Weighted average exercise price (NT\$)
Outstanding at beginning of period	90	\$135.5	98	\$167.3
Forfeited	-	-	-	-
Exercised	(40)	-	-	-
Outstanding at end of period	<u>50</u>	135.5	<u>98</u>	167.3
Exercisable at end of period	<u>50</u>		<u>71.5</u>	

Note: The weighted average share price was NT\$254.5 at the dates of exercise of those options for the three months ended March 31, 2022.

The information of outstanding options of the aforementioned share-based payment as of March 31, 2022 and 2021 was as follows:

	Range of exercise price	Weighted average remaining years
March 31, 2022		
Outstanding stock options	\$135.5	1.333
December 31, 2021		
Outstanding stock options	\$135.5	1.583
March 31, 2021		
Outstanding stock options	\$167.3	2.333

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

Based on 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. The life of this plan is 3 years. Subsequent to the second anniversary of the grant date, those employees who fulfill certain service conditions are gradually eligible to the vested stocks at certain percentage and timeline. During the vesting period, eligible employees are subject to the terms and conditions as follows:

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Those new restricted stocks shall be deemed failing the vesting conditions on the effective day when an eligible 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.

Based on the plan, the new restricted stocks were granted to employees on November 11, 2020, May 5, 2021, and August 11, 2021, respectively. The life of this plan is 3 years. Subsequent to the second anniversary of the grant date, those employees who fulfill both service period and performance conditions are gradually eligible to the vested stock at certain percentage and timeline. During the vesting period, eligible employees are subject to the terms and conditions as follows:

- (a) May not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted employee shares.
- (b) 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) Not entitled to receive stock dividend, cash dividend, and subscription right of capital increase by cash arising from the restricted stocks granted.

Those new restricted stocks shall be deemed failing the vesting conditions on the effective day when an eligible 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.

The information of the outstanding restricted stocks for employees as of March 31, 2022 was as follows:

Date of grant	Shares issued (thousand)	Exercise Price (NT\$)	Fair value per unit (NT\$)	Restricted shares as of March 31, 2022 (thousand)
February 27, 2019	350	\$95.7	\$63.8	-
May 6, 2019	50	\$97.5	\$65.0	30
October 25, 2019	10	\$109.8	\$73.2	-
April 30, 2020	378	\$75.6	\$50.4	338
July 30, 2020	12	\$82.8	\$55.2	12
November 11, 2020	243	\$ -	\$129.0	225
May 5, 2021	30	\$ -	\$146.5	30
August 11, 2021	38	\$ -	\$227.5	32

The Group recognized NT\$5,708 thousand and NT\$6,305 thousand as compensation expense for the three months ended March 31, 2022 and 2021, respectively. NT\$83,155 thousand and NT\$106,924 thousand were recorded as capital surplus-restricted stocks, and

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

NT\$25,047 thousand and NT\$43,690 thousand were recognized as unearned employee compensation as of March 31, 2022 and 2021, respectively.

C. Stock appreciation right plan for employees in the parent company of the Group

In May 2021, the Group executed a compensation plan to grant 54 thousand units of cash-settled stock appreciation right to qualified employees of the Group without consideration. One unit of stock appreciation right to employees represents a right to the intrinsic value of one common share of the Company. The life of the plan is 3.92 years. Subsequent to the second anniversary of the grant date, those employees who fulfill both service period and performance conditions are gradually eligible to the vested stock appreciation right at certain percentage and time frame. For those qualified employees who fail to fulfill the vesting conditions, the Group will withdraw their rights without consideration. During the vesting period, the holders of the stock appreciation right are not entitled the same rights as those of common stock holders of the Company.

The total compensation cost for the cash-settled share-based payment was measured at fair value on the grant date by using Black-Scholes Option Pricing Model, and will be remeasured at the end of each reporting period until settlement. As of March 31, 2022, the assumptions used were as below:

	<u>Stock appreciation right plan for employees</u>
Share price of measurement date (per share)	NT\$197.5
Expected volatility	59.72% - 72.79%
Expected life	1.08 - 2.08 Years
Expected dividend yield	3.09%
Risk free interest rate	0.56% - 0.75%

For the three months ended March 31, 2022, the compensation costs of NT\$3,911 thousand were recognized in expenses by the Group. The liability for stock appreciation right recognized which were classified under other non-current liabilities-others amounting to NT\$3,911 thousand as of March 31, 2022. The intrinsic value for the liability of vested rights was nil.

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

	<u>Three months ended March 31</u>	
	<u>2022</u>	<u>2021</u>
Employee stock options	\$ -	\$64
Restricted stocks for employees	5,708	6,305
Stock appreciation right plan	3,911	-
Total	<u>\$9,619</u>	<u>\$6,369</u>

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

The Company did not cancel or modify any share-based payment plans for the three months ended March 31, 2022 and 2021.

(15) Sales

Analysis of revenue from contracts with customers for the three months ended March 31, 2022 and 2021 is as follows:

A. Disaggregation of revenue

	<u>Three months ended March 31</u>	
	<u>2022</u>	<u>2021</u>
Sale of goods	\$242,394	\$242,918
Services	730	17,756
Total	<u>\$243,124</u>	<u>\$260,674</u>
Revenue recognition point:		
At a point in time	\$242,394	\$242,918
Satisfied the performance obligation over time	730	17,756
Total	<u>\$243,124</u>	<u>\$260,674</u>

B. Contract balances

Contract liabilities – current

	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>March 31,</u> <u>2021</u>	<u>January 1,</u> <u>2021</u>
Sale of goods	\$104,148	\$5,489	\$4,569	\$4,815
Services	13,958	3,131	1,794	1,117
Total	<u>\$118,106</u>	<u>\$8,620</u>	<u>\$6,363</u>	<u>\$5,932</u>

The significant changes in the Group's balances of contract liabilities for the three months ended March 31, 2022 and 2021 are as follows:

	<u>Three months ended March 31</u>	
	<u>2022</u>	<u>2021</u>
Revenue recognized during the period that was included in the beginning balance	\$(5,489)	\$(4,912)
Increase in receipt in advance during the period (deducting the amount incurred and transferred to revenue during the period)	114,975	5,343

C. Transaction price allocated to unsatisfied performance obligations

As of March 31, 2022, no disclosure of the unsatisfied performance obligations was required as the Group's contract terms with customers regarding the sales of goods were all less than one year. Besides, the total of transaction price allocated to unsatisfied

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

performance obligations regarding rendering of service were NT\$87,741 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 1 to 15 months.

As of March 31, 2021, no disclosure of the unsatisfied performance obligations was required as the Group's contract terms with customers regarding the sales of goods were all less than one year. Besides, the total of transaction price allocated to unsatisfied performance obligations regarding rendering of service were NT\$101,995 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 3 to 12 months.

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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Cost to fulfill a contract - current	<u>\$20,088</u>	<u>\$11,939</u>	<u>\$11,955</u>

Cost to fulfill a contract is the costs incurred when the Group dedicates to the consign design projects, and will be reclassified as operating costs when related sales revenue is recognized.

NT\$1,146 thousand and NT\$5,882 thousand amortization were recorded as operating costs for the three months ended March 31, 2022 and 2021.

(16) Expected credit losses (gains)

	<u>Three months ended March 31</u>	
	<u>2022</u>	<u>2021</u>
Operating expense- Expected credit losses (gains)	<u>\$679</u>	<u>\$(380)</u>
Trade receivables	<u>\$679</u>	<u>\$(380)</u>

Please refer to Note 12 for details on credit risk management.

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 March 31, 2022, December 31, 2021 and March 31, 2021 is as follow:

The counterparties' credit ratings, geographical regions and industry sectors are taken into account when grouping receivables and the loss allowance is measured by the provision matrix. Details are as follows:

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

March 31, 2022	Neither past due	Past due					Total
		< 30 days	31-60 days	61-90 days	91-120 days	> 121 days	
Group 1							
Gross carrying amount	\$78,042	\$57	\$ -	\$ -	\$ -	\$ -	\$78,099
Loss ratio	0%	5%	10%	30%	70%	100%	
Lifetime expected credit losses	-	(3)	-	-	-	-	(3)
Subtotal	\$78,042	\$54	\$ -	\$ -	\$ -	\$ -	\$78,096
Group 2	Neither past due	Past due					Total
		< 120 days	121-150 days	151-180 days	181-270 days	> 271 days	
Gross carrying amount	\$ -	\$ -	\$ -	\$ -	\$ -	\$20,377	\$20,377
Loss ratio	0%	0%	5%	10%	30%	70%~100%	
Lifetime expected credit losses	-	-	-	-	-	(20,377)	(20,377)
Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Carrying amount							\$78,096
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	-	-	-	-	-	-	-
Total	\$74,188	\$ -	\$ -	\$ -	\$ -	\$ -	\$74,188
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
March 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	\$115,155	\$229	\$ -	\$ -	\$ -	\$ -	\$115,384
Loss ratio	0%	5%	10%	30%	70%	100%	
Lifetime expected credit losses	-	(12)	-	-	-	-	(12)
Total	\$115,155	\$217	\$ -	\$ -	\$ -	\$ -	\$115,372

The movements in the provision for impairment of trade receivables for the three months ended March 31, 2022 and 2021 were as follows:

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	<u>Trade receivables</u>
As of January 1, 2022	\$19,701
Allowance for the current period	<u>679</u>
As of March 31, 2022	<u>\$20,380</u>
As of January 1, 2021	\$392
Reversal for the current period	<u>(380)</u>
As of March 31, 2021	<u>\$12</u>

(17) Leases

The Group as lessee

The Group leases various properties such as buildings and office equipment with lease terms of 1 to 4 years.

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

A. Amounts reported on the Balance Sheet

(a) Right-of-use assets

Carrying amount of right-of-use assets

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Buildings and facilities	<u>\$8,887</u>	<u>\$9,784</u>	<u>\$15,175</u>

For the three months ended March 31, 2022 and 2021, the additions to right-of-use assets of the Group amounted to NT\$741 thousand and NT\$9,184, respectively.

(b) Lease liabilities

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Lease liabilities	<u>\$8,492</u>	<u>\$9,622</u>	<u>\$14,166</u>
Lease liabilities-current	\$7,650	\$7,159	\$6,297
Lease liabilities-non-current	<u>842</u>	<u>2,463</u>	<u>7,869</u>
Total	<u>\$8,492</u>	<u>\$9,622</u>	<u>\$14,166</u>

Please refer to Note 6(19)D for the interest expenses on lease liabilities recognized, and Note 12(5) for the maturity analysis of lease liabilities for the three months ended March 31, 2022 and 2021.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

B. Amounts reported on the Statement of Comprehensive Income

Depreciation charge for right-of-use assets

	Three months ended March 31	
	2022	2021
Buildings and facilities	\$1,913	\$1,357

C. Income and costs relating to leasing activities

	Three months ended March 31	
	2022	2021
Expense relating to short-term leases	\$280	\$131
Expense relating to leases of low-value assets	10	10
Total	\$290	\$141

D. Cash outflow relating to leasing activities

For the three months ended March 31, 2022 and 2021, the Group's total cash outflows for leases amounted to NT\$2,216 thousand and NT\$2,481 thousand, respectively.

E. Other information relating to leasing activities

Options to extend the lease term

Some of the properties contracts provide the Group options to extend the lease term. The lease term is the sum of non-cancellable period of the 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).

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

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

Functions Nature	Three months ended March 31					
	2022			2021		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Payroll	\$ -	\$55,551	\$55,551	\$ -	\$42,114	\$42,114
Labor/Health insurance	-	3,245	3,245	-	2,773	2,773
Pension	-	1,730	1,730	-	1,429	1,429
Meals	-	705	705	-	611	611
Others	-	1,835	1,835	-	1,830	1,830
Depreciation	-	4,892	4,892	-	4,128	4,128
Amortization	-	11,477	11,477	-	10,047	10,047

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.

The Company accrued NT\$4,600 thousand and NT\$1,800 thousand of employees' compensation and remuneration to directors based on a specific rate of profit of the three months ended March 31, 2022, respectively. The amounts of employees' compensation and remuneration to directors were NT\$2,110 thousand and NT\$1,800 thousand for the three months ended March 31, 2021, respectively. The employees' compensation and remuneration to directors were recognized as payroll 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 for NT\$42,000 thousand and remuneration to directors for NT\$7,200 thousand and the amounts charged against earnings in 2020.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(19) Non-operating incomes and expenses

A. Interest income

	Three months ended March 31	
	2022	2021
Financial assets measured at amortized cost	\$617	\$963

B. Other income

	Three months ended March 31	
	2022	2021
Other income-others	\$837	\$59

C. Other gains and losses

	Three months ended March 31	
	2022	2021
Net foreign exchange gains/(losses)	\$5,342	\$(2,448)
Losses on financial assets at fair value through profit or loss	(1,491)	(2,011)
Others	57	41
Total	\$3,908	\$(4,418)

D. Finance costs

	Three months ended March 31	
	2022	2021
Interest expense on lease liabilities	\$(63)	\$(102)

(20) Components of other comprehensive income

For the three months ended March 31, 2022:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax income (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	\$ (4,206)	\$ -	\$ (4,206)	\$ -	\$ (4,206)
May be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	792	-	792	-	792
Total	\$ (3,414)	\$ -	\$ (3,414)	\$ -	\$ (3,414)

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

For the three months ended March 31, 2021:

	<u>Arising during the period</u>	<u>Reclassification adjustments during the period</u>	<u>Other comprehensive income, before tax</u>	<u>Income tax income (expense)</u>	<u>Other comprehensive income, net of tax</u>
May be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	<u>\$(251)</u>	<u>\$ -</u>	<u>\$(251)</u>	<u>\$ -</u>	<u>\$(251)</u>

(21) Income tax

The major components of income tax expense (income) for the three months ended March 31, 2022 and 2021 were as follows:

Income tax recognized in profit or loss

	<u>Three months ended March 31</u>	
	<u>2022</u>	<u>2021</u>
Current income tax expense:		
Current income tax charge	\$4,425	\$10,241
Tax expense of prior periods recognized in the period	(384)	-
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	384	(74)
Total	<u>\$4,425</u>	<u>\$10,167</u>

The assessment of income tax returns

The income tax returns of the Company have been assessed and approved up to 2019 as of March 31, 2022.

(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.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Three months ended March 31	
	2022	2021*
A. Basic earnings per share		
Profit of the period (in thousand NT\$)	\$19,852	\$38,614
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	29,652	29,369
Basic earnings per share (NT\$)	\$0.67	\$1.31
B. Diluted earnings per share		
Profit of the period after dilution (in thousand NT\$)	\$19,852	\$38,614
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	29,652	29,369
Effect of dilution:		
Employees' compensation-stock (thousand shares)	179	283
Employee stock options (thousand shares)	85	-
Restricted stocks for employees (thousand shares)	528	249
Weighted average number of ordinary shares outstanding after dilution (thousand shares)	30,444	29,901
Diluted earnings per share (NT\$)	\$0.65	\$1.29

* 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 were authorized for issue.

7. Related Party Transactions

Information of the related parties that had transactions with the Group during the reporting period was 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>
深圳市傲科宏芯技术有限公司	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.

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

(1) Sales

	<u>Three months ended March 31</u>	
	<u>2022</u>	<u>2021</u>
Jointly controlled by subsidiary	\$1,157	\$175
Associate of the Company	-	136
Total	<u>\$1,157</u>	<u>\$311</u>

The Company's sales price to the related parties is determined through mutual agreement with reference to market conditions, and credit term for related parties is month end 30 days.

(2) Trade receivables from related parties, net

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
深圳市傲科宏芯技術有限公司	\$708	\$595	\$ -
波克夏科技股份有限公司	-	-	144
Total	<u>\$708</u>	<u>\$595</u>	<u>\$144</u>

(3) Key management personnel compensation of the Group

	<u>Three months ended March 31</u>	
	<u>2022</u>	<u>2021</u>
Short-term employee benefits	\$9,737	\$8,212
Post-employment benefits	189	189
Share-based payment transactions	2,012	1,955
Total	<u>\$11,938</u>	<u>\$10,356</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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

12. Others

(1) Categories of financial instruments

Financial assets

	March 31, 2022	December 31, 2021	March 31, 2021
Financial assets at fair value through profit or loss:			
Mandatorily measured at fair value through profit or loss	\$371,826	\$328,372	\$167,579
Financial assets at fair value through other comprehensive income	11,094	15,300	-
Financial assets measured at amortized cost (Note)	746,810	765,966	1,012,852
Total	<u>\$1,129,730</u>	<u>\$1,109,638</u>	<u>\$1,180,431</u>

Financial liabilities

	March 31, 2022	December 31, 2021	March 31, 2021
Financial liabilities at amortized cost:			
Trade payables	\$316,435	\$196,783	\$349,717
Lease liabilities	8,492	9,622	14,166
Deposits received	167	-	89
Total	<u>\$325,094</u>	<u>\$206,405</u>	<u>\$363,972</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 to manage the aforementioned financial risks. 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

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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 denominated 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 three months ended March 31, 2022 and 2021 will decrease/increase by NT\$1,095 thousand and NT\$499 thousand, respectively.

Interest rate risk

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

Price risk

The fair values of listed and unlisted preferred shares and equity securities the Group holds are susceptible to the uncertainties with respect to the future values of the underlying securities. These listed and unlisted preferred shares and equity securities are classified as equity instrument investments measured at fair value through profit or loss and equity instrument investments measured at fair value through other comprehensive income. The

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Group manages the price risk of preferred shares and equity securities through diversified investment approach and placing limits on individual and total preferred shares and equity securities investments. Information of 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 preferred shares and equity securities classified under equity instrument investments measured at fair value through profit or loss could cause the profit for the three months ended March 31, 2022 and 2021 to increase/decrease by NT\$3,718 thousand and NT\$1,676 thousand, respectively.

(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 notes receivables) and from its financing activities, including bank deposits and various 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, trading history, 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 when necessary.

As of March 31, 2022, December 31, 2021 and March 31, 2021, receivables from top ten customers represented 65.35%, 70.21% and 74.28% of total receivables of the Group, respectively. The credit concentration risk of the rest receivables was insignificant.

The Group's finance department manages exposure to credit risk arising from bank deposits, fixed-income securities and other financial instruments based on the Group's policies. The counterparties are selected based on the internal control procedures, and they are banks with good credit ratings and financial institutes, companies and government agencies at investment level. 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:

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Level of credit risk	Indicator	Measurement method for expected credit losses	Carrying amount		
			March 31, 2022	December 31, 2021	March 31, 2021
Simplified method (Note)	Not applicable	Lifetime expected credit losses	\$98,476	\$109,592	\$115,384

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 (e.g. the issuer or the debtor is in financial difficulties or bankruptcy).

(5) Liquidity risk management

The Group seeks 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 maturities. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings at floating interest rates is extrapolated based on the interest rate yield curve as of the end of the reporting period.

Non-derivative financial liabilities

	Within 1 year	2-3 years	4-5 years	Total
As of March 31, 2022				
Trade payables	\$316,435	\$ -	\$ -	\$316,435
Lease liabilities	7,787	846	-	8,633
Deposits received	-	167	-	167
As of December 31, 2021				
Trade payables	\$196,783	\$ -	\$ -	\$196,783
Lease liabilities	7,338	2,479	-	9,817
As of March 31, 2021				
Trade payables	\$349,717	\$ -	\$ -	\$349,717
Lease liabilities	7,169	8,002	-	15,171
Deposits received	-	89	-	89

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the three months ended March 31, 2022:

	<u>Deposit received</u>	<u>Lease liabilities</u>
As of January 1, 2022	\$ -	\$9,622
Cash flows	167	(1,863)
Non-cash flows		
Addition of the period	-	741
Foreign exchange movement	-	(8)
As of March 31, 2022	<u>\$167</u>	<u>\$8,492</u>

Reconciliation of liabilities for the three months ended March 31, 2021:

	<u>Deposit received</u>	<u>Lease liabilities</u>
As of January 1, 2021	\$89	\$7,226
Cash flows	-	(2,238)
Non-cash flows		
Addition of the period	-	9,184
Foreign exchange movement	-	(6)
As of March 31, 2021	<u>\$89</u>	<u>\$14,166</u>

(7) Fair value of financial instrument

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 or 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 quotations (e.g. listed stocks).
- (c) Fair value of equity instruments (including private company equity securities) without market quotations are estimated using the market approach and income approach valuation techniques based on parameters such as prices based on market

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

transactions of equity instruments of identical or comparable entities and other relevant information.

B. Information related to fair value hierarchy of financial instruments

Please refer to Note 12(8) for details.

(8) Fair value hierarchy

A. Definition of fair value 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 to which 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 hierarchy

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

As of March 31, 2022:

<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>\$371,826</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$371,826</u>
Financial assets at fair value through other comprehensive income:				
Equity instruments at fair value through other comprehensive income	<u>\$ -</u>	<u>\$ -</u>	<u>\$11,094</u>	<u>\$11,094</u>

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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	\$328,372	\$ -	\$ -	\$328,372
Financial assets at fair value through other comprehensive income:				
Equity instruments at fair value through other comprehensive income	\$ -	\$ -	\$15,300	\$15,300

As of March 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	\$167,579	\$ -	\$ -	\$167,579

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 three months ended March 31, 2022 and 2021.

Movement details of recurring financial assets in Level 3 of the fair value hierarchy

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

	<u>Assets</u>
	<u>Measured at fair value through other comprehensive income</u>
	<u>Stocks</u>
As of January 1, 2022	\$15,300
Total gains/(losses) recognized for the period:	
Amount recognized in OCI (recorded as unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income)	(4,206)
As of March 31, 2022	\$11,094

For the three months ended March 31, 2021:

None

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Information on significant unobservable inputs of 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 was as follows:

As of March 31, 2022:

Financial Assets:	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of interrelationship between inputs and fair value
Financial assets at fair value through other comprehensive income					
Stocks	Market approach and income approach	Lack of marketability and discount for minority interest	45%	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\$1,109 thousand

As of December 31, 2021:

Financial Assets:	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of interrelationship between inputs and fair value
Financial assets 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 March 31, 2021: None

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

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

<u>Financial assets</u>	Unit: thousands		
	March 31, 2022		
Monetary item:	Foreign currency	Exchange rate	NT\$
USD	\$6,328	28.62	\$181,107
RMB	1,919	4.506	8,647
EUR	863	31.92	27,547
KRW	146,039	0.02375	3,468

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	March 31, 2022		
	Foreign currency	Exchange rate	NT\$
<u>Financial liabilities</u>			
Monetary item:			
USD	\$2,502	28.62	\$71,607
RMB	55	4.506	248
KRW	1,172	0.02375	28
<u>Financial assets</u>			
Non-monetary item:			
RMB	\$2,079	4.506	\$9,366
	December 31, 2021		
	Foreign currency	Exchange rate	NT\$
<u>Financial assets</u>			
Monetary item:			
USD	\$5,985	27.67	\$165,605
RMB	2,325	4.345	10,102
EUR	767	31.33	24,030
KRW	125,428	0.02340	2,935
<u>Financial liabilities</u>			
Monetary item:			
USD	\$3,098	27.67	\$85,722
RMB	21	4.345	91
KRW	6,460	0.02340	151
<u>Financial assets</u>			
Non-monetary item:			
RMB	\$2,123	4.345	\$9,223
	March 31, 2021		
	Foreign currency	Exchange rate	NT\$
<u>Financial assets</u>			
Monetary item:			
USD	\$6,190	28.53	\$176,601
RMB	1,819	4.342	7,898
EUR	505	33.48	16,907
KRW	116,423	0.025	2,951
<u>Financial liabilities</u>			
Monetary item:			
USD	\$4,440	28.53	\$126,673
RMB	37	4.342	161
KRW	734	0.025	19
<u>Financial assets</u>			
Non-monetary item:			
RMB	\$2,269	4.342	\$9,850

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Three months ended March 31	
	2022	2021
	NT\$	NT\$
Foreign exchange gains (losses) for monetary financial assets and liabilities		
USD	\$4,812	\$(1,619)
RMB	16	(90)
EUR	514	(739)

The above information is disclosed based on the carrying amounts of foreign currencies (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 March 31, 2022: None
- B. Endorsement/guarantee provided to others as of March 31, 2022: None
- C. Securities held as of March 31, 2022 (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 March 31, 2022: None
- 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 March 31, 2022: 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 March 31, 2022: None.
- G. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the paid-in capital as of March 31, 2022: None.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of the paid-in capital as of March 31, 2022: None

I. Financial instruments and derivative transactions: None.

J. Others: The business relationships and significant transactions and amounts between the Company and subsidiaries, and among subsidiaries as of March 31, 2022: Please refer to Attachment 2.

(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 3.

(3) Investment in Mainland China

A. 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 4.

B. Significant direct or indirect transactions with the investee companies in Mainland China: Please refer to Attachment 2.

(4) Information of major shareholders

There was no major shareholder holding the Company's shares up to 5% and above as of March 31, 2022.

14. Segment 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 of the Group 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.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

SECURITIES HELD (EXCLUDING INVESTMENT IN SUBSIDIARIES, AFFILIATES AND JOINTLY CONTROLLED ENTITIES)

As of March 31, 2022

Attachment 1

(Amount in thousands of New Taiwan Dollars)

Company name of holder	Securities type	Securities name	Relationship with securities issuers	Financial statement account	March 31, 2022				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	\$5,692	0.00%	\$5,692	None
	Class B Preferred Share	Fubon Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss- current	1,952	122,586	0.29%	122,586	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	China Development Financial Holding Corp.	-	Financial assets at fair value through profit or loss- current	4,830	44,388	0.26%	44,388	None
	Preferred Share B	CTBC Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss- current	727	46,310	0.22%	46,310	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	11,094	11.76%	11,094	None

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****THE BUSINESS RELATIONSHIP AND SIGNIFICANT TRANSACTIONS BETWEEN THE PARENT AND SUBSIDIARIES****For the three months ended March 31, 2022**

Attachment 2

(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 total sales or total assets (Note 3)
0	Rafael Microelectronics, Inc.	深圳宏觀微系統 科技有限公司	1	Consign research expenses	\$6,505	Based on contract terms	2.68%
0		Rafael Microelectronics Korea	1	Consign service expenses	1,191	Based on contract terms	0.49%

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 the 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 total 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 total 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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEE (EXCLUDING INVESTEES IN MAINLAND CHINA)****For the three months ended March 31, 2022**

Attachment 3

(Amounts in thousands of New Taiwan Dollars, USD)

Investor company	Investee company	Location	Main businesses	Original investment amount (Note 1)		Balance as of March 31, 2022			Net income (loss) of investee	Investment income (loss) recognized	Note
				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	\$20,234 (US\$707,000)	\$20,234 (US\$707,000)	707,000	100.00%	\$20,724	\$(372)	\$(372)	The Company's subsidiary
	Rafael Microelectronics Korea	Korea	Promote RF IC products	2,544 (US\$88,898)	2,544 (US\$88,898)	200,000	100.00%	3,465	605	605	The Company's subsidiary
漢唐股份有限公司	宏宇股份有限公司	Seychelles	General Investing	20,163 (US\$704,500)	20,163 (US\$704,500)	704,500	100.00%	20,649	(372)	(372)	The Company's grandson company

Note 1: The amounts are converted at the exchange rates of March 31, 2022.

English Translation of Financial Statements Originally Issued in Chinese
RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
INFORMATION ON INVESTMENT IN MAINLAND CHINA
For the three months ended March 31, 2022

Attachment 4

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

Mainland China investee company	Main businesses	Total amount of paid-in capital (Note 4)	Investment method (Note 1)	Accumulated outflow of investment from Taiwan as of January 1, 2022	Investment flows		Accumulated outflow of investment from Taiwan as of March 31, 2022	Net income (loss) of the investee company	Direct or indirect percentage of ownership	Investment income (loss) recognized	Carrying amount as of March 31, 2022	Accumulated inward remittance of earnings as of March 31, 2022
					Outflow	Inflow						
深圳宏觀微系統科技有限公司	Technical consultation and services for RF IC products	\$10,017 (US\$350,000)	Indirect investment through investing entity at a third place (Note 2)	\$10,017 (US\$350,000)	\$ -	\$ -	\$10,017 (US\$350,000)	\$(173)	100.00%	\$(173) (Note 5)	\$11,069	\$ -
深圳市傲科宏芯技術有限公司	Design, development, sales, technical consultation and services for optical fiber products	9,958 (US\$347,952.05)	Indirect investment through investing entity at a third place (Note 2)	9,958 (US\$347,952.05)	-	-	9,958 (US\$347,952.05)	(406)	49.00%	(199) (Note 5)	9,366	-
深圳市宏芯智聯集成電路有限公司	Design and sell RF IC products	4,055 (RMB900,000)	Indirect investment through investing entity at a third place (Note 3)	4,055 (RMB900,000)	-	-	4,055 (RMB900,000)	(7)	100.00%	(7) (Note 5)	4,062	-

Accumulated investment in Mainland China as of March 31, 2022 (Note 4)	Investment amounts authorized by Investment Commission, MOEA (Note 4)	Upper limit on investment
\$23,982 (US\$837,952.05)	\$23,982 (US\$837,952.05)	\$819,242

English Translation of Financial Statements Originally Issued in Chinese
RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
INFORMATION ON INVESTMENT IN MAINLAND CHINA
For the three months ended March 31, 2022

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

- (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: Indirectly invested in 宏宇股份有限公司 via investment in 漢唐股份有限公司, a subsidiary of the Company, and 宏宇股份有限公司 invests these 2 companies at Shenzhen, China.

Note 3: Indirectly invested in 宏宇股份有限公司 via investment in 漢唐股份有限公司, a subsidiary of the Company, 宏宇股份有限公司 indirectly invested in 深圳市宏觀微系統科技有限公司, and 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 4: The amounts in foreign currency are converted at the exchange rates of March 31, 2022.

Note 5: The financial statements were not reviewed by auditors of the parent company in Taiwan