

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 SIX MONTHS ENDED
JUNE 30, 2022 AND 2021**

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

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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 June 30, 2022 and 2021, and the related consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2022 and 2021, as well as the changes in equity and cash flows for the six-month periods ended June 30, 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\$28,818 thousand and NT\$32,564 thousand, constituting 1.42% and 1.84% of consolidated total assets as of June 30, 2022 and 2021, respectively, total liabilities amounting to NT\$5,701 thousand and NT\$10,669 thousand, constituting 0.96% and 2.97% of consolidated total liabilities as of June 30, 2022 and 2021, respectively, and total comprehensive income (loss) amounting to NT\$(8,549) thousand, NT\$(6,819) thousand, NT\$(16,013) thousand and NT\$(13,753) thousand,

constituting (20.03)%, (12.28)%, (27.08)% and (14.65)% of consolidated total comprehensive income (loss) for the three-month and six-month periods ended June 30, 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\$8,336 thousand and NT\$30,694 thousand as of June 30, 2022 and 2021, respectively, the share of income (loss) of associates and joint ventures accounted for using the equity method amounted to NT\$(190) thousand, NT\$(1,322) thousand, NT\$(389) thousand and NT\$(1,434) thousand, and the share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method was nil for the three-month and six-month periods ended June 30, 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 June 30, 2022 and 2021, and their consolidated financial performance for the three-month and six-month periods ended June 30, 2022 and 2021 and cash flows for the six-month periods ended June 30, 2022 and 2021, in accordance with 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.

Yang, Yu-Ni

Chiu, Wan-Ju

Ernst & Young, Taiwan

August 10, 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 auditors 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 June 30, 2022, December 31, 2021, and June 30, 2021

(June 30, 2022 and 2021 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	June 30, 2022	%	December 31, 2021	%	June 30, 2021	%
Current assets							
Cash and cash equivalents	6(1), 12	\$ 730,195	36	\$ 615,224	35	\$ 915,781	52
Financial assets at fair value through profit or loss-current	6(2), 12	362,955	18	328,372	19	169,336	10
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	76,811	4	89,296	5	105,705	6
Trade receivables from related parties, net	6(5), 6(16), 7, 12	674	-	595	-	398	-
Other receivables	12	18,111	1	46,313	3	18,243	1
Inventories	6(6)	442,101	22	269,178	15	150,827	9
Prepayments	6(7)	12,967	-	12,024	1	19,050	1
Other current assets		281	-	1,149	-	470	-
Cost to fulfill a contract-current	6(15)	19,914	1	11,939	1	8,173	-
Total current assets		<u>1,678,709</u>	<u>83</u>	<u>1,388,790</u>	<u>80</u>	<u>1,402,683</u>	<u>80</u>
Non-current assets							
Financial assets at fair value through other comprehensive income-non-current	6(3), 12	9,172	1	15,300	1	-	-
Investments accounted for using the equity method	6(8)	8,336	1	9,223	-	30,694	2
Property, plant and equipment	6(9)	226,868	11	226,155	13	228,335	13
Right-of-use assets	6(17)	6,858	-	9,784	1	13,294	-
Intangible assets	6(10)	85,058	4	83,923	5	89,748	5
Deferred tax assets	4	5,437	-	2,771	-	2,722	-
Other non-current assets	6(11), 12	2,795	-	3,795	-	2,908	-
Total non-current assets		<u>344,524</u>	<u>17</u>	<u>350,951</u>	<u>20</u>	<u>367,701</u>	<u>20</u>
Total assets		<u>\$ 2,023,233</u>	<u>100</u>	<u>\$ 1,739,741</u>	<u>100</u>	<u>\$ 1,770,384</u>	<u>100</u>

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

Chairman : Quincy Lin

President : Ted Sun

Chief Financial Officer : Anita Yen

English Translation of Financial Statements Originally Issued in Chinese

RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of June 30, 2022, December 31, 2021, and June 30, 2021

(June 30, 2022 and 2021 are unaudited)

(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	June 30, 2022	%	December 31, 2021	%	June 30, 2021	%
Current liabilities							
Contract liabilities-current	6(15)	\$ 201,696	10	\$ 8,620	-	\$ 5,363	-
Trade payables	12	101,596	5	79,291	5	48,813	3
Other payables	4, 6(14), 12	237,842	12	117,492	7	253,717	14
Current tax liabilities		44,843	2	31,693	2	36,479	2
Lease liabilities-current	6(17), 12	6,568	-	7,159	-	6,824	-
Other current liabilities-others		629	-	661	-	645	-
Total current liabilities		<u>593,174</u>	<u>29</u>	<u>244,916</u>	<u>14</u>	<u>351,841</u>	<u>19</u>
Non-current liabilities							
Deferred tax liabilities	4	507	-	1,114	-	869	-
Lease liabilities-non-current	6(17), 12	-	-	2,463	-	6,130	1
Long-term payables	4, 6(14)	1,661	-	-	-	-	-
Deposits received	12	167	-	-	-	89	-
Total non-current liabilities		<u>2,335</u>	<u>-</u>	<u>3,577</u>	<u>-</u>	<u>7,088</u>	<u>1</u>
Total liabilities		<u>595,509</u>	<u>29</u>	<u>248,493</u>	<u>14</u>	<u>358,929</u>	<u>20</u>
Equity attributable to owners of the parent							
Share capital	6(13)						
Common stock		308,091	15	307,831	18	256,763	15
Capital collected in advance		-	-	1,084	-	-	-
Stock to be cancelled		(220)	-	-	-	-	-
Capital surplus	6(13), 6(14)	413,000	21	408,438	23	405,022	23
Retained earnings	6(13)						
Legal reserve		162,722	8	146,076	8	127,878	7
Special reserve		891	-	414	-	1,022	-
Unappropriated earnings/(accumulated deficit)		603,033	30	707,484	41	703,711	40
Total retained earnings		<u>766,646</u>	<u>38</u>	<u>853,974</u>	<u>49</u>	<u>832,611</u>	<u>47</u>
Other equity		(38,160)	(2)	(37,316)	(2)	(40,178)	(2)
Treasury shares	6(13)	(21,633)	(1)	(42,763)	(2)	(42,763)	(3)
Total equity		<u>1,427,724</u>	<u>71</u>	<u>1,491,248</u>	<u>86</u>	<u>1,411,455</u>	<u>80</u>
Total liabilities and equity		<u>\$ 2,023,233</u>	<u>100</u>	<u>\$ 1,739,741</u>	<u>100</u>	<u>\$ 1,770,384</u>	<u>100</u>

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

Chairman : Quincy Lin

President : Ted Sun

Chief Financial Officer : Anita Yen

English Translation of Financial Statements Originally Issued in Chinese
RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the six months ended June 30, 2022 and 2021
(Amounts in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	Three months ended June 30				Six months ended June 30			
		2022	%	2021	%	2022	%	2021	%
Operating revenue	6(15), 7	\$ 320,087	100	\$ 282,626	100	\$ 563,211	100	\$ 543,300	100
Operating costs	6(6)	(158,221)	(49)	(132,985)	(47)	(285,769)	(51)	(268,435)	(49)
Gross profit		161,866	51	149,641	53	277,442	49	274,865	51
Unrealized profit from sales		(697)	-	-	-	(697)	-	-	-
Gross profit, net		161,169	51	149,641	53	276,745	49	274,865	51
Operating expenses	6(16), 6(17), 6(18)								
Selling expenses		(8,293)	(3)	(13,103)	(5)	(17,704)	(3)	(18,425)	(3)
General and administrative expenses		(12,961)	(4)	(12,766)	(5)	(25,524)	(5)	(23,828)	(3)
Research and development expenses		(78,805)	(25)	(73,856)	(26)	(152,551)	(27)	(130,685)	(24)
Expected credit losses		(782)	-	(1,972)	(1)	(1,461)	-	(1,592)	-
Total operating expenses		(100,841)	(32)	(101,697)	(37)	(197,240)	(35)	(174,530)	(30)
Operating income		60,328	19	47,944	16	79,505	14	100,335	21
Non-operating income and expenses	6(19)								
Interest income		768	-	991	-	1,385	-	1,954	-
Other income		168	-	59	-	1,005	-	118	-
Other gains and losses		(5,575)	(2)	(739)	-	(1,667)	-	(5,157)	(1)
Finance costs		(53)	-	(65)	-	(116)	-	(167)	-
Share of profit/(loss) of associates and joint ventures accounted for using the equity method	6(8)	(190)	-	(1,322)	-	(389)	-	(1,434)	-
Total non-operating income and expenses		(4,882)	(2)	(1,076)	-	218	-	(4,686)	(1)
Net income before income tax		55,446	17	46,868	16	79,723	14	95,649	20
Income tax expense	4, 6(21)	(10,410)	(3)	8,871	3	(14,835)	(3)	(1,296)	-
Net income		45,036	14	55,739	19	64,888	11	94,353	20
Other comprehensive income	6(20)								
Items that will not be reclassified to profit or loss									
Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income		(1,922)	(1)	-	-	(6,128)	(1)	-	-
Items that may be reclassified subsequently to profit or loss									
Exchange differences resulting from translating the financial statements of foreign operations		(426)	-	(218)	-	366	-	(469)	-
Other comprehensive income net of tax		(2,348)	(1)	(218)	-	(5,762)	(1)	(469)	-
Total comprehensive income		\$ 42,688	13	\$ 55,521	19	\$ 59,126	10	\$ 93,884	20
Net income (loss) for the periods attributable to :									
Owners of the parent		\$ 45,036		\$ 55,739		\$ 64,888		\$ 94,353	
Comprehensive income (loss) for the periods attributable to :									
Owners of the parent		\$ 42,688		\$ 55,521		\$ 59,126		\$ 93,884	
Earnings Per Share (in New Taiwan Dollars)									
Basic Earnings Per Share									
Net income	6(22)	\$ 1.51		\$ 1.89		\$ 2.18		\$ 3.20	
Diluted Earnings Per Share									
Net income	6(22)	\$ 1.48		\$ 1.86		\$ 2.13		\$ 3.15	

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 six months ended June 30, 2022 and 2021
(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent											Total equity
	Share capital			Capital surplus	Retained earnings			Other equity			Treasury shares	
	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 period	-	-	-	-	-	-	94,353	-	-	-	-	94,353
Other comprehensive income for the period	-	-	-	-	-	-	-	(469)	-	-	-	(469)
Total comprehensive income	-	-	-	-	-	-	94,353	(469)	-	-	-	93,884
Share-based payment transactions	(378)	-	400	708	-	-	-	-	-	10,699	-	11,429
Balance as of June 30, 2021	<u>\$ 256,763</u>	<u>\$-</u>	<u>\$-</u>	<u>\$ 405,022</u>	<u>\$ 127,878</u>	<u>\$ 1,022</u>	<u>\$ 703,711</u>	<u>\$ (882)</u>	<u>\$-</u>	<u>\$ (39,296)</u>	<u>\$ (42,763)</u>	<u>\$ 1,411,455</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												
Legal reserve	-	-	-	-	16,646	-	(16,646)	-	-	-	-	-
Special reserve	-	-	-	-	-	477	(477)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(152,216)	-	-	-	-	(152,216)
Profit for the period	-	-	-	-	-	-	64,888	-	-	-	-	64,888
Other comprehensive income for the period	-	-	-	-	-	-	-	366	(6,128)	-	-	(5,762)
Total comprehensive income	-	-	-	-	-	-	64,888	366	(6,128)	-	-	59,126
Share-based payment transactions	260	(1,084)	(220)	4,562	-	-	-	-	-	4,918	21,130	29,566
Balance as of June 30, 2022	<u>\$ 308,091</u>	<u>\$-</u>	<u>\$ (220)</u>	<u>\$ 413,000</u>	<u>\$ 162,722</u>	<u>\$ 891</u>	<u>\$ 603,033</u>	<u>\$ (524)</u>	<u>\$ (9,970)</u>	<u>\$ (27,666)</u>	<u>\$ (21,633)</u>	<u>\$ 1,427,724</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 six months ended June 30, 2022 and 2021
(Amounts in thousands of New Taiwan Dollars)

Description	For the six months ended June 30	
	2022	2021
Cash flows from operating activities:		
Net income before income tax	\$ 79,723	\$ 95,649
Adjustments for:		
Profit or loss items:		
Depreciation	9,971	8,874
Amortization	24,173	20,947
Expected credit losses	1,461	1,592
Net losses on financial assets and liabilities at fair value through profit or loss	10,362	254
Interest expenses	116	167
Interest income	(1,385)	(1,954)
Compensation cost of share-based payments	13,742	12,931
Share of (profit)/loss of associates and joint ventures accounted for using the equity method	389	1,434
Unrealized profit from sales	697	-
Changes in assets and liabilities relating to operating activities:		
Trade receivables	11,024	11,178
Trade receivables from related parties	(79)	(398)
Other receivables	28,205	(3,210)
Inventories	(172,923)	(19,135)
Prepayments	(943)	(12,170)
Other current assets	868	(206)
Cost to fulfill a contract	(7,975)	280
Contract liabilities	193,076	(569)
Trade payables	22,305	(22,979)
Other payables	(33,578)	(6,327)
Other current liabilities	(32)	24
Cash generated from operating activities	<u>179,197</u>	<u>86,382</u>
Interest received	1,382	1,968
Interest paid	(116)	(167)
Income tax paid	(4,958)	(7,609)
Net cash provided by operating activities	<u>175,505</u>	<u>80,574</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	(5,770)	(8,758)
Increase in refundable deposits	(90)	(76)
Acquisition of intangible assets	(25,308)	(62,133)
Decrease in other non-current assets	-	491
Net cash used in investing activities	<u>(76,113)</u>	<u>(126,020)</u>
Cash flows from financing activities:		
Increase in deposits received	167	-
Cash payment for principal portion of lease liabilities	(3,715)	(3,541)
Proceeds from exercise of employee stock options	5,420	-
Proceeds from transfer of treasury shares to employees	15,577	-
Expired restricted stock for employees	(1,800)	(1,502)
Net cash provided by (used in) financing activities	<u>15,649</u>	<u>(5,043)</u>
Effect of changes in exchange rate on cash and cash equivalents	(70)	(117)
Net increase (decrease) in cash and cash equivalents	114,971	(50,606)
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>\$ 730,195</u>	<u>\$ 915,781</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 six-month periods ended June 30, 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 August 10, 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 International Accounting Standards Board (“IASB”) which are endorsed by the FSC, but not yet adopted by the Group as at the end of the reporting period are listed below:

Item	New, Revised or Amended Standards and Interpretations	Effective Date
1	“Disclosure Initiative - Accounting Policies” (Amendment to IAS 1)	January 1, 2023
2	“Definition of Accounting Estimates” (Amendment to IAS 8)	January 1, 2023
3	“Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction” (Amendment to IAS 12)	January 1, 2023

A. “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.

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

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

C. “Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction” (Amendment to IAS 12)

The amendments narrow the scope of 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 were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2023 and have no material impact on the Group.

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

Item	New, Revised or Amended Standards and Interpretations	Effective Date
1	IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	To be determined by IASB
2	IFRS 17 “Insurance Contracts”	January 1, 2023
3	“Classification of Liabilities as Current or Non-Current” (Amendment to IAS 1)	January 1, 2023

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

The amendments address the inconsistency between the requirements in IFRS 10 and 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. 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 “Business Combinations” (“IFRS 3”) between an investor and its associate or joint venture is recognized in full.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

B. IFRS 17 “Insurance Contracts” (“IFRS 17”)

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 period 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)

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

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

4. Summary of Significant Accounting Policies

(1) Statement of Compliance

The consolidated financial statements of the Group for the six-month periods ended June 30, 2022 and 2021 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and IAS No. 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.

(3) Basis of Consolidation

Basis of preparation of consolidated financial statements

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.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

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		
			June 30, 2022	December 31, 2021	June 30, 2021
The Company	Han Tang Co., Ltd	General investing	100%	100%	100%
The Company	Rafael Microelectronics Korea	Promote RF IC products	100%	100%	100%
Han Tang Co., Ltd	HONG YU CO., LTD.	General investing	100%	100%	100%
HONG YU CO., LTD.	ShenZhen Rafael Microsystems, Inc.	Technical consultation and services of RF IC products	100%	100%	100%
ShenZhen Rafael Microsystems, Inc.	Rafael Semiconductors, Inc. (Note)	Design and sell RF IC products	100%	100%	100%

Note: Rafael Semiconductors, Inc. 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.

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 accompanying consolidated financial statements included the financial statements of the aforementioned subsidiaries, which statements reflected total assets amounting to NT\$28,818 thousand and NT\$32,564 thousand and total liabilities amounting to NT\$5,701 thousand and NT\$10,669 thousand as of June 30, 2022 and 2021, respectively, and total comprehensive income (loss) amounting to NT\$(8,549) thousand, NT\$(6,819) thousand, NT\$(16,013) thousand and NT\$(13,753) thousand for the three-month and six-month periods ended June 30, 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 six-month period ended June 30, 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.

- (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.

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. 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 six-month periods ended June 30, 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

	June 30, 2022	December 31, 2021	June 30, 2021
Cash on hand	\$898	\$1,118	\$1,005
Checking and savings accounts	301,797	156,606	217,276
Time deposits	427,500	457,500	697,500
Total	<u>\$730,195</u>	<u>\$615,224</u>	<u>\$915,781</u>

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

	June 30, 2022	December 31, 2021	June 30, 2021
Financial assets mandatorily measured at fair value through profit or loss:			
Listed company stocks	<u>\$362,955</u>	<u>\$328,372</u>	<u>\$169,336</u>

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

In the first half 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

	June 30, 2022	December 31, 2021	June 30, 2021
Equity instrument investments at fair value through other comprehensive income – non-current:			
Unlisted company stocks	<u>\$9,172</u>	<u>\$15,300</u>	<u>\$-</u>

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 more details.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(4) Financial assets measured at amortized cost – current

	June 30, 2022	December 31, 2021	June 30, 2021
Time deposits	\$14,700	\$14,700	\$14,700

(5) Trade receivables

	June 30, 2022	December 31, 2021	June 30, 2021
Trade receivables	\$97,973	\$108,997	\$107,689
Less: allowance for doubtful debts	(21,162)	(19,701)	(1,984)
Subtotal	76,811	89,296	105,705
Trade receivables from related parties	674	595	398
Less: allowance for doubtful debts	-	-	-
Subtotal	674	595	398
Total	\$77,485	\$89,891	\$106,103

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\$98,647 thousand, NT\$109,592 thousand and NT\$108,087 thousand as of June 30, 2022, December 31, 2021 and June 30, 2021, respectively. Please refer to Note 6(16) for more details on impairment of trade receivables for the six months ended June 30, 2022 and 2021, and Note 12 for more details on credit risk management.

(6) Inventories

	June 30, 2022	December 31, 2021	June 30, 2021
Raw materials	\$120,675	\$67,775	\$42,566
Work in process	137,882	90,749	76,763
Finished goods	183,544	110,654	31,498
Total	\$442,101	\$269,178	\$150,827

The cost of inventories recognized in expenses amounted to NT\$158,221 thousand and NT\$132,985 thousand, including the write-down of inventories of NT\$(3,665) thousand and reversal of write-down of inventories of NT\$552 thousand for the three months ended June 30, 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 June 30, 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)

The cost of inventories recognized in expenses amounted to NT\$285,769 thousand and NT\$268,435 thousand, including write-down of inventories of NT\$3,606 thousand and NT\$1,432 thousand for the six months ended June 30, 2022 and 2021, respectively.

The aforementioned inventories were not pledged.

(7) Prepayments

	June 30, 2022	December 31, 2021	June 30, 2021
Inventory - prepaid	\$11,024	\$9,497	\$17,244
Input tax	338	318	478
Others	1,605	2,209	1,328
Total	<u>\$12,967</u>	<u>\$12,024</u>	<u>\$19,050</u>

(8) Investments accounted for using the equity method

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

Investees	June 30, 2022		December 31, 2021		June 30, 2021	
	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying Amount	Percentage of ownership
Investments in associates:						
BKS Tec Corp.	\$-	- %	\$-	- %	\$21,001	14.63%
Investments in jointly controlled entities:						
Aluksen Hongxin Technology Co., Ltd.	<u>8,336</u>	49%	<u>9,223</u>	49%	<u>9,693</u>	49%
Total	<u>\$8,336</u>		<u>\$9,223</u>		<u>\$30,694</u>	

A. Investments in associates

The directors and supervisors of BKS Tec Corp. 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 BKS Tec Corp. was not material. The following table summarizes financial information of the Group's share in this associate:

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Net loss from continuing operations	\$-	\$(1,238)	\$-	\$(1,176)
Other comprehensive income	-	-	-	-
Total comprehensive income	<u>\$-</u>	<u>\$(1,238)</u>	<u>\$-</u>	<u>\$(1,176)</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)

B. Investments in jointly controlled entities

The Group's investment in Aluksen Hongxin Technology Co., Ltd. was not material. The following table summarizes financial information of the Group's share in this entity:

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Net loss from continuing operations	\$(190)	\$(84)	\$(389)	\$(258)
Other comprehensive income	-	-	-	-
Total comprehensive income	<u>\$(190)</u>	<u>\$(84)</u>	<u>\$(389)</u>	<u>\$(258)</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 June 30, 2022, December 31, 2021 and June 30, 2021, respectively.

The investments accounted for using the equity method were NT\$8,336 thousand and NT\$30,694 thousand as of June 30, 2022 and 2021, respectively, the share of profit (loss) of associates and joint ventures accounted for using the equity method amounted to NT\$(190) thousand, NT\$(1,322) thousand, NT\$(389) thousand and NT\$(1,434) thousand for the three months and six months ended June 30, 2022 and 2021, respectively, and the share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method was nil for the three months and six months ended June 30, 2022 and 2021, respectively. These amounts disclosed were based on the unreviewed financial statements of the investee companies.

(9) Property, plant and equipment

	June 30,		December 31,		June 30,		
	2022		2021		2021		
Owner-occupied property, plant and equipment	<u>\$226,868</u>	<u>\$226,155</u>	<u>\$228,335</u>				
Cost:							
As of January 1, 2022	\$128,490	\$84,968	\$31,414	\$9,859	\$2,500	\$-	\$257,231
Additions	-	-	5,520	1,309	-	-	6,829
Disposals	-	-	(1,079)	(755)	-	-	(1,834)
Exchange differences	-	-	-	54	-	-	54
As of June 30, 2022	<u>\$128,490</u>	<u>\$84,968</u>	<u>\$35,855</u>	<u>\$10,467</u>	<u>\$2,500</u>	<u>\$-</u>	<u>\$262,280</u>

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

	Land	Buildings and facilities	Testing equipment	Office equipment	Transportation equipment	Construction in progress & equipment awaiting examination	Total
As of January 1, 2021	\$128,490	\$84,968	\$27,942	\$6,615	\$2,500	\$-	\$250,515
Additions	-	-	4,290	2,660	-	1,808	8,758
Disposals	-	-	(975)	-	-	-	(975)
Exchange differences	-	-	-	(41)	-	-	(41)
As of June 30, 2021	<u>\$128,490</u>	<u>\$84,968</u>	<u>\$31,257</u>	<u>\$9,234</u>	<u>\$2,500</u>	<u>\$1,808</u>	<u>\$258,257</u>
Depreciation and impairment:							
As of January 1, 2022	\$-	\$9,659	\$14,278	\$5,764	\$1,375	\$-	\$31,076
Depreciation	-	850	3,533	1,500	250	-	6,133
Disposals	-	-	(1,079)	(755)	-	-	(1,834)
Exchange differences	-	-	1	36	-	-	37
As of June 30, 2022	<u>\$-</u>	<u>\$10,509</u>	<u>\$16,733</u>	<u>\$6,545</u>	<u>\$1,625</u>	<u>\$-</u>	<u>\$35,412</u>
As of January 1, 2021	\$-	\$7,960	\$13,270	\$3,092	\$875	\$-	\$25,197
Depreciation	-	850	3,412	1,209	250	-	5,721
Disposals	-	-	(975)	-	-	-	(975)
Exchange differences	-	-	-	(21)	-	-	(21)
As of June 30, 2021	<u>\$-</u>	<u>\$8,810</u>	<u>\$15,707</u>	<u>\$4,280</u>	<u>\$1,125</u>	<u>\$-</u>	<u>\$29,922</u>
Net carrying amount as of:							
June 30, 2022	<u>\$128,490</u>	<u>\$74,459</u>	<u>\$19,122</u>	<u>\$3,922</u>	<u>\$875</u>	<u>\$-</u>	<u>\$226,868</u>
December 31, 2021	<u>\$128,490</u>	<u>\$75,309</u>	<u>\$17,136</u>	<u>\$4,095</u>	<u>\$1,125</u>	<u>\$-</u>	<u>\$226,155</u>
June 30, 2021	<u>\$128,490</u>	<u>\$76,158</u>	<u>\$15,550</u>	<u>\$4,954</u>	<u>\$1,375</u>	<u>\$1,808</u>	<u>\$228,335</u>

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

(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	1,093	128	24,087	25,308
As of June 30, 2022	<u>\$10,567</u>	<u>\$102,088</u>	<u>\$113,719</u>	<u>\$226,374</u>
As of January 1, 2021	\$8,423	\$99,849	\$15,060	\$123,332
Additions-acquired separately	580	29,915	31,638	62,133
As of June 30, 2021	<u>\$9,003</u>	<u>\$129,764</u>	<u>\$46,698</u>	<u>\$185,465</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)**

Amortization and impairment:	Patents	Software	Photo Masks	Total
As of January 1, 2022	\$6,763	\$89,896	\$20,484	\$117,143
Amortization	611	5,882	17,680	24,173
As of June 30, 2022	<u>\$7,374</u>	<u>\$95,778</u>	<u>\$38,164</u>	<u>\$141,316</u>
As of January 1, 2021	\$5,534	\$67,405	\$1,831	\$74,770
Amortization	628	14,283	6,036	20,947
As of June 30, 2021	<u>\$6,162</u>	<u>\$81,688</u>	<u>\$7,867</u>	<u>\$95,717</u>
Net carrying amount as of:				
June 30, 2022	<u>\$3,193</u>	<u>\$6,310</u>	<u>\$75,555</u>	<u>\$85,058</u>
December 31, 2021	<u>\$2,711</u>	<u>\$12,064</u>	<u>\$69,148</u>	<u>\$83,923</u>
June 30, 2021	<u>\$2,841</u>	<u>\$48,076</u>	<u>\$38,831</u>	<u>\$89,748</u>

Amortization expenses of intangible assets were as follows:

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
R&D Expenses	<u>\$12,696</u>	<u>\$10,900</u>	<u>\$24,173</u>	<u>\$20,947</u>

(11) Other non-current assets

	June 30, 2022	December 31, 2021	June 30, 2021
Prepayment - long term	\$1,754	\$1,754	\$1,754
Prepayment - equipment	-	1,059	-
Others	1,041	982	1,154
Total	<u>\$2,795</u>	<u>\$3,795</u>	<u>\$2,908</u>

(12) Post-employment benefits plans

Defined contribution plan

The Group's pension expenses under the defined contribution plan were NT\$1,818 thousand and NT\$1,516 thousand for the three months ended June 30, 2022 and 2021, respectively. Pension expenses under the defined contribution plan were NT\$3,548 thousand and NT\$2,945 thousand for the six months ended June 30, 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

As of June 30, 2022, December 31, 2021 and June 30, 2021, the Company's authorized capital and shares consisted of NT\$500,000 thousand and 50,000 thousand shares (including 50 thousand shares reserved for exercise of employee stock options), and the issued capital amounted to NT\$308,091 in 30,809 thousand shares, NT\$307,831 in 30,783 thousand shares and NT\$256,763 in 25,676 thousand shares, respectively, each at a par value of NT\$10. The treasury shares and certain restricted stocks for employees are not entitled for the stock dividend and cash dividend. Each of the rest shares has one voting right and a right to receive dividends.

In the first half of 2022, the Company redeemed 44 thousand shares of issued restricted stocks for employees. As of June 30, 2022, a half of the aforementioned shares were not yet registered and therefore NT\$220 thousand were classified as capital to be cancelled, while the registration has completed for the rest of the aforementioned shares.

In January 2022, the Company issued 40 thousand shares of common stock, at a par value of NT\$10, to employees who had exercised stock options, and the registration was completed for the aforementioned shares in May 2022.

B. Capital surplus

	June 30, 2022	December 31, 2021	June 30, 2021
Additional paid-in capital	\$349,072	\$288,833	\$287,795
Treasury shares transactions	4,724	-	-
Employee stock options	2,174	3,891	3,862
Restricted stocks for employees	51,691	110,375	104,453
Share of changes in net assets of associates and jointly controlled entities	-	-	3,573
Others	5,339	5,339	5,339
Total	<u>\$413,000</u>	<u>\$408,438</u>	<u>\$405,022</u>

According to the Company Act, the capital surplus shall not be used except for offsetting the deficit of the company. When a company incurs no loss, the capital surplus generated from the excess of the issuance price over the par value of share capital and donations may be allocated to capital per annum 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.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

C. Treasury shares

	June 30, 2022	December 31, 2021	June 30, 2021
Amount	\$21,633	\$42,763	\$42,763
Shares (in thousands)	172	340	340

The Company repurchases shares for transfer to employees. Please refer to Note 6(14) for details.

The Company transferred 168 thousand treasury shares to employees on June 14, 2022.

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, Paragraph 1, Article 241 of the same Act 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 on cash flow in the future; therefore, the dividend distributed to shareholders shall be no less than 10% of distributable earnings of the year. The dividend may not be distributed when accumulated distributable earnings is less than 10% of paid-in capital. The cash dividends to be distributed may not be less than 10% of total dividends to be distributed.

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

In accordance with the Company Act, the Company is required 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 appropriation and distribution of 2021 and 2020 earnings and dividends per share as resolved by the general shareholders' meetings on June 15, 2022 and July 7, 2021, respectively, were as follows:

	Appropriation and distribution of earnings		Dividends per share (NT\$)	
	2021	2020	2021	2020
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.

(14) Share-based payment plans

A. Employee stock option plan of the Company

On April 19, 2017, the Company was authorized by the Securities and Futures Bureau of FSC to issue employee stock option of 167 thousand units, each unit eligible to subscribe to one share of the Company's common stock. 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 stock 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.

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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.

Information relevant to aforementioned share-based payment plan is as follows:

Date of grant	Total units of option granted	Exercise price per unit (Note)
August 10, 2017	167 thousand	NT\$135.5

Note: The exercise price is subject to adjustment to reflect the change in outstanding common stocks.

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

	Issue Day: August 10, 2017
Expected dividend yield	0%
Expected volatility	21.23% - 21.83%
Risk free interest rate	0.6924% - 0.7594%
Expected life	4 - 5 Years
Weighted average stock price	\$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 stock options is indicative of future trends, which may also not necessarily be the actual outcome.

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

	Six months ended June 30			
	2022		2021	
Stock options	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 (Note)	(40)	135.5	-	-
Outstanding at end of period	50	135.5	98	166.9
Exercisable at end of period	50		71.5	

Note: For six months ended June 30, 2022, the weighted average share price was NT\$254.5 at the dates of exercise of those options.

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The information of outstanding options of the aforementioned share-based payment plan as of June 30, 2022, December 31, 2021 and June 30, 2021 was as follows:

	<u>Range of exercise price</u>	<u>Weighted average remaining years</u>
June 30, 2022		
Outstanding stock options	NT\$135.5	1.083
December 31, 2021		
Outstanding stock options	NT\$135.5	1.583
June 30, 2021		
Outstanding stock options	NT\$166.9	2.083

B. Restricted stocks plan for employees of the Company

Based on the Plan, the 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. 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 stocks.
- (b) Entitled to receive stock dividend and cash dividend from the restricted stocks granted, but excluded from subscription right of capital increase in cash.
- (c) Upon issuance, the 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 restricted stocks from the trustee for any reason or any way.

Those 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 stocks at the issued price and cancel the full number of the share.

Based on the Plan, the 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 and performance conditions are gradually eligible to the vested stocks at certain percentage. During the vesting period, eligible employees are subject to the terms and conditions as follows:

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

- (a) May not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted shares.
- (b) During the vesting period, the rights of attending shareholders' meeting, proposal, speech, resolution and voting, etc. will be exercised by the custodian institutes or banks according to the trust contracts.
- (c) Not entitled for stock dividend, cash dividend and subscription right of capital increase in cash arising from the restricted stocks granted.

Those 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 stocks at the issued price and cancel the full number of the share.

The information of the outstanding restricted stocks for employees as of June 30, 2022 was as follows:

Date of grant	Shares issued (thousand)	Exercise price (NT\$)	Fair value per unit (NT\$)	Number of restricted shares as of June 30, 2022 (thousand)
February 27, 2019	350	\$95.7	\$63.8	-
May 6, 2019	50	\$97.5	\$65.0	-
October 25, 2019	10	\$109.8	\$73.2	-
April 30, 2020	378	\$75.6	\$50.4	127
July 30, 2020	12	\$82.8	\$55.2	12
November 11, 2020	243	\$-	\$129.0	219
May 5, 2021	30	\$-	\$146.5	30
August 11, 2021	38	\$-	\$227.5	24

The Group recognized NT\$3,804 thousand, NT\$6,497 thousand, NT\$9,512 thousand and NT\$12,802 thousand as compensation expense for the three months and six months ended June 30, 2022 and 2021, respectively. NT\$51,691 thousand and NT\$104,453 thousand were recorded as capital surplus-restricted stocks, and NT\$27,666 thousand and NT\$39,296 thousand were recognized as unearned employee compensation as of June 30, 2022 and 2021, respectively.

C. Employee treasury shares plan of the Company

To motivate employees, the Board of Directors adopted a resolution of repurchase 500 thousand shares as treasury shares to be transferred to employees on April 6, 2020. As of June 30, 2022, the repurchase period has expired and 340 thousand shares have been repurchased.

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The employee treasury shares plan was resolved and approved by the Board of Directors on May 4, 2022, and 168 thousand shares were transferred to employees during the six months ended June 30, 2022 based on the approved plan. The exercise price is NT\$93 per share and the Company's stock price on the grant date was NT\$154. These treasury shares were granted to the qualified employees.

D. Stock appreciation right plan for employees of the Company

In May 2021, the Company executed a compensation plan to grant 54 thousand units of cash-settled stock appreciation right to qualified employees without consideration. One unit of stock appreciation right represents a right to the intrinsic value of one common stock 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 and performance conditions are gradually eligible to the vested stock appreciation right at certain percentage. For those qualified employees who fail to fulfill the vesting conditions, the Company 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 June 30, 2022, the assumptions used were as below:

	<u>Stock appreciation right plan for employees</u>
Share price on measurement date (per unit)	NT\$139.5
Expected volatility	62.66% - 73.38%
Expected life	0.83 - 1.83 Years
Expected dividend yield	3.09%
Risk free interest rate	0.71% - 0.84%

The Group reversed and recognized the compensation costs of NT\$538 thousand and NT\$3,373 thousand for the three-month and six-month periods ended June 30, 2022, respectively. The liabilities for stock appreciation right recognized were NT\$3,373 thousand which were classified as other payables and other long-term payables amounted to NT\$1,712 thousand and NT\$1,661 thousand as of June 30, 2022, respectively. The intrinsic value for the vested rights was nil.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Employee stock options	\$-	\$65	\$-	\$129
Restricted stocks for employees	3,804	6,497	9,512	12,802
Employees treasury shares plan	857	-	857	-
Stock appreciation right plan	(538)	-	3,373	-
Total	<u>\$4,123</u>	<u>\$6,562</u>	<u>\$13,742</u>	<u>\$12,931</u>

The Company did not cancel or modify any share-based payment plans for the six months ended June 30, 2022 and 2021.

(15) Operating revenue

The information of revenue from contracts with customers for the six months ended June 30, 2022 and 2021 was as follows:

A. Disaggregation of revenue

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Sale of goods	\$298,472	\$271,511	\$540,866	\$514,429
Services	21,615	11,115	22,345	28,871
Total	<u>\$320,087</u>	<u>\$282,626</u>	<u>\$563,211</u>	<u>\$543,300</u>
Revenue recognition point:				
At a point in time	\$298,472	\$271,511	\$540,866	\$514,429
Satisfied the performance obligation over time	21,615	11,115	22,345	28,871
Total	<u>\$320,087</u>	<u>\$282,626</u>	<u>\$563,211</u>	<u>\$543,300</u>

B. Contract balances

Contract liabilities – current

	June 30, 2022	December 31, 2021	June 30, 2021	January 1, 2021
Sale of goods	\$192,530	\$5,489	\$3,569	\$4,815
Services	9,166	3,131	1,794	1,117
Total	<u>\$201,696</u>	<u>\$8,620</u>	<u>\$5,363</u>	<u>\$5,932</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 significant changes in the Group's balances of contract liabilities for the six months ended June 30, 2022 and 2021 were as follows:

	<u>Six months ended June 30</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)	198,565	4,343

C. Transaction price allocated to unsatisfied performance obligations

As of June 30, 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 performance obligations regarding rendering of service were NT\$79,485 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 3 to 12 months.

As of June 30, 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\$88,456 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 to fulfill a contract

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>June 30,</u> <u>2021</u>
Cost to fulfill a contract - current	<u>\$19,914</u>	<u>\$11,939</u>	<u>\$8,173</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\$28,366 thousand, NT\$4,709 thousand, NT\$29,512 thousand and NT\$10,591 thousand amortization were recorded as operating costs for the three-month and six-month periods ended June 30, 2022 and 2021.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

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

(16) Expected credit losses

Operating expense – Expected credit losses	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Trade receivables	\$782	\$1,972	\$1,461	\$1,592

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

The Group measures the loss allowance of its trade receivables at an amount equal to lifetime expected credit losses. The assessment of loss allowance as of June 30, 2022, December 31, 2021 and June 30, 2021 was as follow:

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

June 30, 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	\$77,319	\$174	\$-	\$-	\$-	\$-	\$77,493
Loss ratio	0%	5%	10%	30%	70%	100%	
Lifetime expected credit losses	-	(8)	-	-	-	-	(8)
Subtotal	\$77,319	\$166	\$-	\$-	\$-	\$-	\$77,485
Group 2							
Gross carrying amount	\$-	\$-	\$-	\$-	\$-	\$21,154	\$21,154
Loss ratio	0%	0%	5%	10%	30%	70%~100%	
Lifetime expected credit losses	-	-	-	-	-	(21,154)	(21,154)
Subtotal	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Carrying amount							\$77,485
December 31, 2021							
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							
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

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June 30, 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	\$79,893	\$-	\$-	\$-	\$-	\$-	\$79,893
Loss ratio	0%	5%	10%	30%	70%	100%	
Lifetime expected credit losses	-	-	-	-	-	-	-
Total	\$79,893	\$-	\$-	\$-	\$-	\$-	\$79,893
Group 2							
Gross carrying amount	\$8,358	\$-	\$19,836	\$-	\$-	\$-	\$28,194
Loss ratio	0%	5%	10%	30%	70%	100%	
Lifetime expected credit losses	-	-	(1,984)	-	-	-	(1,984)
Subtotal	\$8,358	\$-	\$17,852	\$-	\$-	\$-	\$26,210
Carrying amount							\$106,103

The movements in the provision for impairment of trade receivables for the six months ended June 30, 2022 and 2021 were as follows:

	Allowance for trade receivables
As of January 1, 2022	\$19,701
Provision of current period	1,461
As of June 30, 2022	<u>\$21,162</u>
As of January 1, 2021	\$392
Provision of current period	1,592
As of June 30, 2021	<u>\$1,984</u>

(17) Leases

The Group as lessee

The Group leases various assets 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

	June 30, 2022	December 31, 2021	June 30, 2021
Buildings and facilities	<u>\$6,858</u>	<u>\$9,784</u>	<u>\$13,294</u>

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For the six months ended June 30, 2022 and 2021, the additions to right-of-use assets of the Group amounted to NT\$741 thousand and NT\$9,184 thousand, respectively.

(b) Lease liabilities

	June 30, 2022	December 31, 2021	June 30, 2021
Lease liabilities	\$6,568	\$9,622	\$12,954
Current	\$6,568	\$7,159	\$6,824
Non-current	-	2,463	6,130
Total	\$6,568	\$9,622	\$12,954

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 six months ended June 30, 2022 and 2021.

B. Amounts reported on the Statement of Comprehensive Income

Depreciation charge for right-of-use assets

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Buildings and facilities	\$1,925	\$1,796	\$3,838	\$3,153

C. Income and costs relating to leasing activities

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Expense relating to short-term leases	\$872	\$395	\$1,152	\$526
Expense relating to leases of low-value assets	14	4	24	14
Total	\$886	\$399	\$1,176	\$540

D. Cash outflow relating to leasing activities

For the six months ended June 30, 2022 and 2021, the Group's total cash outflows for leases amounted to NT\$5,007 thousand and NT\$4,248 thousand, respectively.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

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

E. Other information relating to leasing activities

Options to extend the lease term

Some of the property lease 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. Most of the extension options shall be exercised by the Group and the Group only. Upon the commencement of the contract, the Group shall re-assess the lease term when significant item occurs or situation changes significantly (i.e. under lessee's control, and will impact if the Group shall reasonably assure to exercise the option excluded from the original determination of lease term, or shall not exercise the option included in the original determination of lease term).

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

Functions Nature	Three months ended June 30					
	2022			2021		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Payroll	\$-	\$55,599	\$55,599	\$-	\$59,121	\$59,121
Labor/Health insurance	-	3,535	3,535	-	2,902	2,902
Pension	-	1,818	1,818	-	1,516	1,516
Meals	-	741	741	-	653	653
Others	-	1,800	1,800	-	1,835	1,835
Depreciation	-	5,079	5,079	-	4,746	4,746
Amortization	-	12,696	12,696	-	10,900	10,900

Functions Nature	Six months ended June 30					
	2022			2021		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Payroll	\$-	\$111,150	\$111,150	\$-	\$101,235	\$101,235
Labor/Health insurance	-	6,780	6,780	-	5,675	5,675
Pension	-	3,548	3,548	-	2,945	2,945
Meals	-	1,446	1,446	-	1,264	1,264
Others	-	3,635	3,635	-	3,665	3,665
Depreciation	-	9,971	9,971	-	8,874	8,874
Amortization	-	24,173	24,173	-	20,947	20,947

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According to the Articles of Incorporation of the Company, no less than 4% and no more than 4% of profit of the current year, if any, is distributable as employees' compensation and remuneration to directors, respectively. 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 and recognized NT\$13,200 thousand and NT\$3,600 thousand of employees' compensation and remuneration to directors based on the profit of the six months ended June 30, 2022, respectively. The amounts recognized as employees' compensation and remuneration to directors were NT\$8,600 thousand and NT\$1,800 thousand for the three months ended June 30, 2022, respectively. The employees' compensation and remuneration to directors of NT\$20,000 thousand and NT\$3,600 thousand were accrued and recognized for the six months ended June 30, 2021, respectively. The employees' compensation and remuneration to directors of NT\$17,890 thousand and NT\$1,800 thousand were recognized for the three months ended June 30, 2021, respectively. The employees' compensation and remuneration to directors were recorded as payroll expenses.

A resolution was adopted 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.

(19) Non-operating incomes and expenses

A. Interest income

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Financial assets measured at amortized cost	\$768	\$991	\$1,385	\$1,954

B. Other income

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Other income-others	\$168	\$59	\$1,005	\$118

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

C. Other gains and losses

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Net foreign exchange gains/(losses)	\$3,801	\$(2,486)	\$9,143	\$(4,934)
Gains (losses) on financial assets at fair value through profit or loss	(8,871)	1,756	(10,362)	(254)
Others	(505)	(9)	(448)	31
Total	<u>\$(5,575)</u>	<u>\$(739)</u>	<u>\$(1,667)</u>	<u>\$(5,157)</u>

D. Finance costs

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Interest expense on lease liabilities	<u>\$(53)</u>	<u>\$(65)</u>	<u>\$(116)</u>	<u>\$(167)</u>

(20) Components of other comprehensive income

For the three months ended June 30, 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	\$(1,922)	\$-	\$(1,922)	\$-	\$(1,922)
May be reclassified to profit or loss subsequently:					
Exchange differences resulting from translating the financial statements of foreign operations	(426)	-	(426)	-	(426)
Total	<u>\$(2,348)</u>	<u>\$-</u>	<u>\$(2,348)</u>	<u>\$-</u>	<u>\$(2,348)</u>

For the three months ended June 30, 2021:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax income (expense)	Other comprehensive income, net of tax
May be reclassified to profit or loss subsequently:					
Exchange differences resulting from translating the financial statements of foreign operations	\$(218)	\$-	\$(218)	\$-	\$(218)

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 six months ended June 30, 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	\$(6,128)	\$-	\$(6,128)	\$-	\$(6,128)
May be reclassified to profit or loss subsequently:					
Exchange differences resulting from translating the financial statements of foreign operations	366	-	366	-	366
Total	<u>\$(5,762)</u>	<u>\$-</u>	<u>\$(5,762)</u>	<u>\$-</u>	<u>\$(5,762)</u>

For the six months ended June 30, 2021:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax income (expense)	Other comprehensive income, net of tax
May be reclassified to profit or loss subsequently:					
Exchange differences resulting from translating the financial statements of foreign operations	\$(469)	\$-	\$(469)	\$-	\$(469)

(21) Income tax

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

Income tax recognized in profit or loss

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2022	2021	2022	2021
Current income tax expense (income):				
Current income tax charge	\$14,887	\$9,566	\$19,312	\$19,807
Tax expense of prior periods recognized in the period	(820)	(18,776)	(1,204)	(18,776)
Deferred tax expense (income):				
Deferred tax income relating to origination and reversal of temporary differences	(3,657)	339	(3,273)	265
Income tax expense (income)	<u>\$10,410</u>	<u>\$(8,871)</u>	<u>\$14,835</u>	<u>\$1,296</u>

The assessment of income tax returns

The income tax returns of the Company have been assessed and approved up to 2019 as of June 30, 2022.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(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 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 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.

	Three months ended June 30		Six months ended June 30	
	2022	2021*	2022	2021*
A. Basic earnings per share				
Profit of the period (in thousand NT\$)	\$45,036	\$55,739	\$64,888	\$94,353
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	29,971	29,530	29,813	29,479
Basic earnings per share (NT\$)	\$1.51	\$1.89	\$2.18	\$3.20
B. Diluted earnings per share				
Profit of the period after dilution (in thousand NT\$)	\$45,036	\$55,739	\$64,888	\$94,353
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	29,971	29,530	29,813	29,479
Effect of dilution:				
Employees' compensation-stock (thousand shares)	95	148	172	282
Employee stock options (thousand shares)	22	-	31	-
Restricted stocks for employees (thousand shares)	266	215	385	239
Weighted average number of ordinary shares outstanding after dilution (thousand shares)	30,354	29,893	30,401	30,000
Diluted earnings per share (NT\$)	\$1.48	\$1.86	\$2.13	\$3.15

* Retroactively adjusted

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

There were no other transactions involving significant changes in the outstanding ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issue.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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 related parties

<u>Name of related parties</u>	<u>Nature of relationship of related parties</u>
Aluksen Hongxin Technology Co., Ltd.	Jointly controlled by a subsidiary
BKS Tec Corp. (Note)	Associate of the Company

Note: The Company lost the significant influence over BKS Tec Corp. since July 21, 2021, so it is not an associate or the related parties to the Company thereafter.

Significant transactions with related parties

(1) Sales

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2022	2021	2022	2021
Jointly controlled by subsidiary	\$1,167	\$530	\$2,324	\$705
Associate of the Company	-	68	-	204
Total	<u>\$1,167</u>	<u>\$598</u>	<u>\$2,324</u>	<u>\$909</u>

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

The aforementioned unrealized gross profit from the sales with related parties has been eliminated based on the percentage of ownership.

(2) Trade receivables from related parties, net

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>June 30,</u> <u>2021</u>
Aluksen Hongxin Technology Co., Ltd.	<u>\$674</u>	<u>\$595</u>	<u>\$398</u>

(3) Key management personnel compensation of the Group

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2022	2021	2022	2021
Short-term employee benefits	\$10,838	\$12,833	\$20,575	\$21,045
Post-employment benefits	189	189	378	378
Share-based payment transactions	1,702	1,941	3,714	3,896
Total	<u>\$12,729</u>	<u>\$14,963</u>	<u>\$24,667</u>	<u>\$25,319</u>

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

8. Assets Pledged as Collateral

None

9. Contingencies and Off Balance Sheet Commitments

None

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

None

12. Others

(1) Categories of financial instruments

Financial assets

	June 30, 2022	December 31, 2021	June 30, 2021
Financial assets at fair value through profit or loss:			
Mandatorily measured at fair value through profit or loss	\$362,955	\$328,372	\$169,336
Financial assets at fair value through other comprehensive income	9,172	15,300	-
Financial assets measured at amortized cost (Note)	840,635	765,966	1,054,913
Total	<u>\$1,212,762</u>	<u>\$1,109,638</u>	<u>\$1,224,249</u>

Financial liabilities

	June 30, 2022	December 31, 2021	June 30, 2021
Financial liabilities measured at amortized cost:			
Payables	\$339,438	\$196,783	\$302,530
Lease liabilities	6,568	9,622	12,954
Deposits received	167	-	89
Total	<u>\$346,173</u>	<u>\$206,405</u>	<u>\$315,573</u>

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(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 based on relevant regulations 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.

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 of the risks 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 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:

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

When NTD appreciates or depreciates against USD by 1%, the profit for the six months ended June 30, 2022 and 2021 would decrease/increase by NT\$1,404 thousand and NT\$1,051 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 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 is 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 as equity instrument investments measured at fair value through profit or loss could cause the Group's profit for the six months ended June 30, 2022 and 2021 to increase/decrease by NT\$3,630 thousand and NT\$1,693 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 financial activities, including bank deposits and various financial instruments.

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

Credit risk is managed by each business unit subject to the Group's established policies, procedures and controls relating to credit risk management. The comprehensive credit risk assessment is 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. The Group takes certain credit enhancement procedures, when necessary, to mitigate the credit risk of certain trading partners

As of June 30, 2022, December 31, 2021 and June 30, 2021, receivables from top ten customers represented 66.10%, 70.21% and 72.86% to total trade receivables of the Group, respectively. The credit concentration risk of the rest trade receivables was insignificant.

The Group's finance department manages exposure to credit risk arising from bank deposits, fixed-income securities and other financial instruments 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 in the assessment of expected credit losses. The assessment information is described as follows:

Level of credit risk	Indicator	Measurement method for expected credit losses	Gross carrying amount		
			June 30, 2022	December 31, 2021	June 30, 2021
Simplified method (Note)	Not applicable	Lifetime expected credit losses	\$98,647	\$109,592	\$108,087

Note: The Group adopts simplified method (lifetime expected credit losses) to measure loss allowance, including trade receivables.

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

(5) Liquidity risk management

The Group maintains financial flexibility through the contracts 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 interest payments relating to borrowings at floating interest rates is extrapolated based on the yield curve as of the end of the reporting period.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Non-derivative financial liabilities

	<u>Within 1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>Total</u>
As of June 30, 2022				
Payables	\$339,438	\$-	\$-	\$339,438
Lease liabilities	6,653	-	-	6,653
Deposits received	-	167	-	167
As of December 31, 2021				
Payables	\$196,783	\$-	\$-	\$196,783
Lease liabilities	7,338	2,479	-	9,817
As of June 30, 2021				
Payables	\$302,530	\$-	\$-	\$302,530
Lease liabilities	7,101	6,202	-	13,303
Deposits received	-	89	-	89

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the six months ended June 30, 2022:

	<u>Deposits received</u>	<u>Lease liabilities</u>
As of January 1, 2022	\$-	\$9,622
Cash flows	167	(3,715)
Non-cash flows		
Addition of the period	-	741
Foreign exchange movement	-	(80)
As of June 30, 2022	<u>\$167</u>	<u>\$6,568</u>

Reconciliation of liabilities for the six months ended June 30, 2021:

	<u>Deposits received</u>	<u>Lease liabilities</u>
As of January 1, 2021	\$89	\$7,226
Cash flows	-	(3,541)
Non-cash flows		
Addition of the period	-	9,184
Foreign exchange movement	-	85
As of June 30, 2021	<u>\$89</u>	<u>\$12,954</u>

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(7) Fair value of financial instruments

A. Valuation techniques and assumptions applied in determining the fair value of financial instruments

Fair value is the price that would be received from selling 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 value of financial assets and financial liabilities:

- (a) The carrying amounts of cash and cash equivalents, receivables, financial assets measured at amortized cost, 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 stocks of the private company) without market quotations are estimated using the market approach and income approach valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information.

B. Information related to fair value hierarchy of financial instruments

Please refer to Note 12(8) for more 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.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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. Level 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 June 30, 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>\$362,955</u>	<u>\$-</u>	<u>\$-</u>	<u>\$362,955</u>
Financial assets at fair value through other comprehensive income:				
Equity instruments at fair value through other comprehensive income	<u>\$-</u>	<u>\$-</u>	<u>\$9,172</u>	<u>\$9,172</u>

As of December 31, 2021:

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

As of June 30, 2021:

<u>Assets measured at fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss:				
Stocks	<u>\$169,336</u>	<u>\$-</u>	<u>\$-</u>	<u>\$169,336</u>

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

For the Group's assets and liabilities 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 six months ended June 30, 2022 and 2021.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Movement details of recurring items 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:

	Assets
	Measured at fair value through other comprehensive income
	Stocks
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)	(6,128)
As of June 30, 2022	\$9,172

For the six months ended June 30, 2021: None

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 June 30, 2022:

	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of interrelationship between inputs and fair value
Financial Assets: 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\$917 thousand

As of December 31, 2021:

	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of interrelationship between inputs and fair value
Financial Assets: 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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of June 30, 2021: None

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

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

	Unit: thousands		
	June 30, 2022		
	Foreign currency	Exchange rate	NT\$
<u>Financial assets</u>			
Monetary item:			
USD	\$8,151	29.71	\$242,166
CNY	1,762	4.439	7,822
EUR	855	31.05	26,548
KRW	168,313	0.023	3,871
<u>Financial liabilities</u>			
Monetary item:			
USD	\$3,425	29.71	\$101,757
CNY	21	4.439	93
KRW	7,720	0.023	178
<u>Financial assets</u>			
Non-monetary item:			
CNY	\$1,878	4.439	\$8,336
	December 31, 2021		
	Foreign currency	Exchange rate	NT\$
<u>Financial assets</u>			
Monetary item:			
USD	\$5,985	27.67	\$165,605
CNY	2,325	4.345	10,102
EUR	767	31.33	24,030
KRW	125,428	0.0234	2,935
<u>Financial liabilities</u>			
Monetary item:			
USD	\$3,098	27.67	\$85,722
CNY	21	4.345	91
KRW	6,460	0.0234	151
<u>Financial assets</u>			
Non-monetary item:			
CNY	\$2,123	4.345	\$9,223

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	June 30, 2021		
	Foreign currency	Exchange rate	NT\$
<u>Financial assets</u>			
Monetary item:			
USD	\$6,112	27.86	\$170,280
CNY	3,390	4.310	14,611
EUR	529	33.16	17,542
KRW	124,012	0.025	3,082
<u>Financial liabilities</u>			
Monetary item:			
USD	\$2,340	27.86	\$65,192
CNY	37	4.310	159
KRW	1,068	0.025	27
<u>Financial assets</u>			
Non-monetary item:			
CNY	\$2,280	4.310	\$9,693

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
	NT\$	NT\$	NT\$	NT\$
Foreign exchange gains (losses) for monetary financial assets and liabilities				
USD	\$4,535	\$(2,259)	\$9,347	\$(3,878)
CNY	(7)	(61)	9	(151)
EUR	(727)	(166)	(213)	(905)

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 maintaining a solid credit rating and healthy capital ratios to support business operations and maximize shareholders' equity. The Group manages and adjusts capital structure in light of economic conditions. To maintain and 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 June 30, 2022: None

B. Endorsement/guarantee provided to others as of June 30, 2022: None

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

- C. Marketable securities held as of June 30, 2022 (excluding those of subsidiaries, associates and jointly controlled entities): Please refer to Attachment 1.
- D. Individual marketable 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 June 30, 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 June 30, 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 June 30, 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 June 30, 2022: None.
- H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of the paid-in capital as of June 30, 2022: None
- I. Information about trading in derivative instruments: None.
- J. Others: The business relationships and significant transactions and amounts between the Company and subsidiaries, and among subsidiaries as of June 30, 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, paid-in capital, method of investment, accumulated inflows and outflows of investments from Taiwan, percentage of ownership, investment income (loss), ending 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.

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(4) Information of major shareholders

There was no major shareholder holding the Company's shares up to 5% or more as of June 30, 2022.

14. Segment Information

The Group is engaged in the research, design, manufacturing and sale 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 assess the overall performance. Therefore, the Group is aggregated into a single segment.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of June 30, 2022

Attachment 1

(Amount in thousands of New Taiwan Dollars)

Company name of holder	Marketable securities type	Marketable securities name	Relationship with security issuers	Financial statement account	June 30, 2022				If pledged
					Shares (thousand)	Carrying amount	Percentage of ownership	Fair value	
Rafael Microelectronics, Inc.	Common stocks	Fubon Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss- current	74	\$4,450	0.00%	\$4,450	None
	Class B preferred share	Fubon Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss- current	1,952	121,219	0.29%	121,219	None
	Class C preferred share	Fubon Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss- current	2,543	150,815	0.76%	150,815	None
	Preferred share B	China Development Financial Holding Corp.		Financial assets at fair value through profit or loss- current	4,830	40,379	0.26%	40,379	None
	Preferred share B	CTBC Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss- current	727	46,092	0.22%	46,092	None
	Common stocks	BKS Tec Corp.	-	Financial assets at fair value through other comprehensive income - non-current	6,000	9,172	11.76%	9,172	None

English Translation of Financial Statements Originally Issued in Chinese
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 six months ended June 30, 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.	ShenZhen Rafael Microsystems, Inc.	1	Consign research expenses	\$13,516	Based on contract terms	2.40%
0		Rafael Microelectronics Korea	1	Consign service expenses	2,084	Based on contract terms	0.37%

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

1. The parent 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: Transaction amount as 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 six months ended June 30, 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 June 30, 2022			Net income (loss) of investee	Investment income (loss) recognized	Notes
				Ending balance	Beginning balance	Units / shares	Percentage of ownership	Carrying amount			
Rafael Microelectronics, Inc.	Han Tang Co., Ltd	Seychelles	General investing	\$21,005 (US\$707,000)	\$21,005 (US\$707,000)	707,000	100.00%	\$18,708	\$(1,383)	\$(1,383)	The Company's subsidiary
	Rafael Microelectronics Korea	Korea	Promote RF IC products	2,641 (US\$88,898)	2,641 (US\$88,898)	200,000	100.00%	3,712	969	969	The Company's subsidiary
Han Tang Co., Ltd	HONG YU CO., LTD.	Seychelles	General investing	20,931 (US\$704,500)	20,931 (US\$704,500)	704,500	100.00%	19,330	(1,383)	(1,383)	The Company's grandson company

Note 1: The amounts are converted at the exchange rates of June 30, 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 six months ended June 30, 2022

Attachment 4

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

Investee company in Mainland China	Main businesses	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 June 30, 2022	Net income (loss) of investee company	Direct or indirect percentage of ownership	Investment income (loss) recognized	Carrying amount as of June 30, 2022	Accumulated inward remittance of earnings as of June 30, 2022
					Outflow	Inflow						
ShenZhen Rafael Microsystems, Inc.	Technical consultation and services for RF IC products	\$10,399 (US\$350,000)	Indirect investment through investing entity in a third region (Note 2)	\$10,399 (US\$350,000)	\$-	\$-	\$10,399 (US\$350,000)	\$(994)	100.00%	\$(994) (Note 5)	\$10,082	\$-
Aluksen Hongxin Technology Co., Ltd.	Design, development, sales, technical consultation and services for optical fiber products	10,338 (US\$347,952.05)	Indirect investment through investing entity in a third region (Note 2)	10,338 (US\$347,952.05)	-	-	10,338 (US\$347,952.05)	(389)	49.00%	(191) (Note 5)	9,033	-
Rafael Semiconductors, Inc.	Design and sell RF IC products	3,995 (RMB900,000)	Indirect investment through investing entity in a third region (Note 3)	3,995 (RMB900,000)	-	-	3,995 (RMB900,000)	(4)	100.00%	(4) (Note 5)	4,005	-

Accumulated investment in Mainland China as of June 30, 2022 (Note 4)	Investment amounts authorized by Investment Commission, MOEA (Note 4)	Upper limit on investment
\$24,896 (US\$837,952.05)	\$24,896 (US\$837,952.05)	\$856,634

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 six months ended June 30, 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 invests in HONG YU CO., LTD. via investment in Han Tang Co., Ltd in a third region, and HONG YU CO., LTD. invests these 2 companies in China.

Note 3: Indirectly invests in HONG YU CO., LTD. via investment in Han Tang Co., Ltd in a third region, and HONG YU CO., LTD. indirectly invests in ShenZhen Rafael Microsystems, Inc., and ShenZhen Rafael Microsystems, Inc., invests in Rafael Semiconductors, Inc..

Note 4: The amounts in foreign currency are converted at the exchange rates of June 30, 2022.

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