

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 NINE MONTHS ENDED  
SEPTEMBER 30, 2023 AND 2022**

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

Notice to Readers

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

# Consolidated Financial Statements

## Table of Contents

I.	Cover Page .....	1
II.	Table of Contents .....	2
III.	Review Report of Independent Auditors.....	3
IV.	Consolidated Balance Sheets .....	6
V.	Consolidated Statements of Comprehensive Income.....	8
VI.	Consolidated Statements of Changes in Equity .....	9
VII.	Consolidated Statements of Cash Flows .....	10
VIII.	Notes to Consolidated Financial Statements	
1.	Organization and Operation .....	11
2.	Date and Procedures of Authorization of Financial Statements for Issue.....	11
3.	Newly Issued or Revised Standards and Interpretations.....	11
4.	Summary of Significant Accounting Policies .....	14
5.	Critical Accounting Judgments, Assumptions and Key Sources of Estimation Uncertainty .....	16
6.	Contents of Significant Accounts .....	17
7.	Related Party Transactions .....	39
8.	Assets Pledged as Collateral .....	40
9.	Contingencies and Off Balance Sheet Commitments .....	40
10.	Losses due to Major Disasters.....	40
11.	Significant Subsequent Events .....	40
12.	Others .....	40
13.	Additional Disclosures .....	50
(1)	Significant Transactions Information.....	50
(2)	Information on Investees.....	51
(3)	Investment in Mainland China .....	51
(4)	Main Shareholder Information.....	51
14.	Segment Information.....	51

English Translation of a Report Originally Issued in Chinese

**Review Report of Independent Auditors**

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

**Introduction**

We have reviewed the accompanying consolidated balance sheets of Rafael Microelectronics, Inc. and its subsidiaries as of September 30, 2023 and 2022, and the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2023 and 2022, as well as the changes in equity and cash flows for the nine-month periods ended September 30, 2023 and 2022, 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 Review Standards No. 2410, “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\$28,992 thousand and NT\$28,284 thousand, constituting 1.73% and 1.46% of consolidated total assets as of September 30, 2023 and 2022, respectively, total liabilities amounting to NT\$4,544 thousand and NT\$4,209 thousand, constituting 1.89% and 0.84% of consolidated total liabilities as of September 30, 2023 and 2022, respectively, and total comprehensive income (loss) amounting to

NT\$(7,196) thousand, NT\$(7,090) thousand, NT\$(25,167) thousand and NT\$(23,103) thousand, constituting (21.99)%, (262.98)%, (39.55)% and (37.37)% of consolidated total comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2023 and 2022, 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\$7,133 thousand and NT\$7,965 thousand as of September 30, 2023 and 2022, respectively, the share of income (loss) of associates and joint ventures accounted for using the equity method amounted to NT\$(225) thousand, NT\$(160) thousand, NT\$(1,132) thousand and NT\$(549) 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 nine-month periods ended September 30, 2023 and 2022, 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 September 30, 2023 and 2022, and their consolidated financial performance for the three-month and nine-month periods ended September 30, 2023 and 2022 and cash flows for the nine-month periods ended September 30, 2023 and 2022, 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.

Chiu, Wan-Ju

Hsu, Hsin-Min

Ernst & Young, Taiwan

November 8, 2023

### 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 September 30, 2023, December 31, 2022, and September 30, 2022  
(September 30, 2023 and 2022 are unaudited)  
(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	September 30, 2023	%	December 31, 2022	%	September 30, 2022	%
<b>Current assets</b>							
Cash and cash equivalents	6(1), 12	\$ 501,988	30	\$ 586,925	31	\$ 622,189	32
Financial assets at fair value through profit or loss-current	6(2), 12	340,035	20	337,268	18	347,241	18
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	75,719	5	91,108	5	67,592	4
Trade receivables from related parties, net	6(5), 6(16), 7, 12	-	-	854	-	1,140	-
Other receivables	12	20,077	1	24,556	1	18,082	1
Inventories	6(6)	411,814	25	475,279	25	489,298	25
Prepayments	6(7)	5,043	-	3,986	-	5,431	-
Other current assets	12	38	-	592	-	420	-
Cost to fulfill a contract-current	6(15)	316	-	6,341	-	13,473	1
Total current assets		<u>1,369,730</u>	<u>82</u>	<u>1,541,609</u>	<u>81</u>	<u>1,579,836</u>	<u>82</u>
<b>Non-current assets</b>							
Financial assets at fair value through other comprehensive income-non-current	6(3), 12	5,208	-	6,206	-	7,137	-
Investments accounted for using the equity method	6(8)	7,133	-	7,482	1	7,965	-
Property, plant and equipment	6(9)	214,452	13	221,728	12	224,834	12
Right-of-use assets	6(17)	7,547	1	7,156	1	4,597	-
Intangible assets	6(10)	66,129	4	85,965	5	98,331	5
Deferred tax assets	4	5,290	-	4,349	-	8,420	1
Other non-current assets	6(11), 12	2,724	-	2,807	-	2,795	-
Total non-current assets		<u>308,483</u>	<u>18</u>	<u>335,693</u>	<u>19</u>	<u>354,079</u>	<u>18</u>
Total assets		<u>\$ 1,678,213</u>	<u>100</u>	<u>\$ 1,877,302</u>	<u>100</u>	<u>\$ 1,933,915</u>	<u>100</u>

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

Chairman : Quincy Lin

President : Marshall Lee / Ken Li

Chief Financial Officer : Anita Yen

English Translation of Financial Statements Originally Issued in Chinese  
**RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
As of September 30, 2023, December 31, 2022, and September 30, 2022  
(September 30, 2023 and 2022 are unaudited)  
(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	September 30, 2023	%	December 31, 2022	%	September 30, 2022	%
Current liabilities							
Contract liabilities-current	6(15), 7	\$ 8,531	1	\$ 146,493	8	\$ 255,937	13
Trade payables	12	94,597	6	102,171	6	104,739	6
Other payables	4, 6(14), 12	113,215	7	111,837	6	101,732	5
Current tax liabilities		14,355	1	15,845	1	27,021	2
Lease liabilities-current	6(17), 12	3,973	-	3,979	-	4,394	-
Other current liabilities-others		429	-	607	-	609	-
Total current liabilities		<u>235,100</u>	<u>15</u>	<u>380,932</u>	<u>21</u>	<u>494,32</u>	<u>26</u>
Non-current liabilities							
Deferred tax liabilities	4	1,633	-	370	-	2,558	-
Lease liabilities-non-current	6(17), 12	3,629	-	3,053	-	-	-
Long-term payables	4, 6(14), 12	-	-	2,617	-	1,770	-
Total non-current liabilities		<u>5,262</u>	<u>-</u>	<u>6,040</u>	<u>-</u>	<u>4,328</u>	<u>-</u>
Total liabilities		<u>240,362</u>	<u>15</u>	<u>386,972</u>	<u>21</u>	<u>498,760</u>	<u>26</u>
Equity attributable to owners of the parent							
Share capital	6(13)						
Common stock		307,399	18	307,791	16	307,871	16
Stock to be cancelled		(84)	-	(140)	-	(80)	-
Capital surplus	6(13), 6(14)	405,244	24	410,425	22	412,043	21
Retained earnings	6(13)						
Legal reserve		174,887	10	162,722	9	162,722	9
Special reserve		13,373	1	891	-	891	-
Unappropriated earnings		576,470	34	659,792	35	607,711	31
Total retained earnings		764,730	45	823,405	44	771,324	40
Other equity		(18,308)	(1)	(30,021)	(2)	(34,370)	(2)
Treasury shares	6(13)	(21,130)	(1)	(21,130)	(1)	(21,633)	(1)
Total equity		<u>1,437,851</u>	<u>85</u>	<u>1,490,330</u>	<u>79</u>	<u>1,435,155</u>	<u>74</u>
Total liabilities and equity		<u>\$ 1,678,213</u>	<u>100</u>	<u>\$ 1,877,302</u>	<u>100</u>	<u>\$ 1,933,915</u>	<u>100</u>

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

Chairman : Quincy Lin

President : Marshall Lee / Ken Li

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 nine months ended September 30, 2023 and 2022  
(Amounts in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	Three months ended September 30				Nine months ended September 30			
		2023	%	2022	%	2023	%	2022	%
Net Sales	6(15), 7	\$ 259,857	100	\$ 274,147	100	\$ 794,363	100	\$ 837,358	100
Operating costs	6(6)	<u>(151,684)</u>	<u>(58)</u>	<u>(177,878)</u>	<u>(65)</u>	<u>\$ (498,232)</u>	<u>(63)</u>	<u>(463,647)</u>	<u>(55)</u>
Gross profit		108,173	42	96,269	35	296,131	37	373,711	45
Unrealized profit from sales		-	-	(286)	-	772	-	(983)	-
Net gross profit		<u>108,173</u>	<u>42</u>	<u>95,983</u>	<u>35</u>	<u>296,903</u>	<u>37</u>	<u>372,728</u>	<u>45</u>
Operating expenses	6(16), 6(17), 6(18)								
Selling expenses		(10,130)	(4)	(7,912)	(3)	(28,079)	(3)	(25,616)	(3)
General and administrative expenses		(12,490)	(5)	(12,832)	(5)	(31,289)	(4)	(38,356)	(5)
Research and development expenses		(58,431)	(23)	(68,720)	(25)	(191,593)	(24)	(221,271)	(27)
Expected credit losses		(801)	-	(1,473)	(1)	(1,102)	-	(2,934)	-
Total operating expenses		<u>(81,852)</u>	<u>(32)</u>	<u>(90,937)</u>	<u>(34)</u>	<u>(252,063)</u>	<u>(31)</u>	<u>(288,177)</u>	<u>(35)</u>
Operating income		<u>26,321</u>	<u>10</u>	<u>5,046</u>	<u>1</u>	<u>44,840</u>	<u>6</u>	<u>84,551</u>	<u>10</u>
Non-operating income and expenses	6(19)								
Interest income		810	-	752	-	3,709	-	2,137	-
Other income		8,930	4	7,084	3	8,963	1	8,089	1
Other gains and losses		665	-	(7,059)	(3)	10,235	1	(8,726)	(1)
Finance costs		(66)	-	(40)	-	(145)	-	(156)	-
Share of profit/(loss) of associates and joint ventures accounted for using the equity method	6(8)	<u>(225)</u>	<u>-</u>	<u>(160)</u>	<u>-</u>	<u>(1,132)</u>	<u>-</u>	<u>(549)</u>	<u>-</u>
Total non-operating income and expenses		<u>10,114</u>	<u>4</u>	<u>577</u>	<u>-</u>	<u>21,630</u>	<u>2</u>	<u>795</u>	<u>-</u>
Net income before income tax		36,435	14	5,623	1	66,470	8	85,346	10
Income tax expense	4, 6(21)	<u>(6,901)</u>	<u>(3)</u>	<u>(945)</u>	<u>-</u>	<u>(2,773)</u>	<u>-</u>	<u>(15,780)</u>	<u>(2)</u>
Net income		<u>29,534</u>	<u>11</u>	<u>4,678</u>	<u>1</u>	<u>63,697</u>	<u>8</u>	<u>69,566</u>	<u>8</u>
Other comprehensive income	6(20)								
Items that may not be reclassified subsequently to profit or loss									
Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income		1,586	-	(2,035)	(1)	(998)	-	(8,163)	(1)
Items that may be reclassified subsequently to profit or loss									
Exchange differences resulting from translating the financial statements of foreign operations		<u>1,604</u>	<u>1</u>	<u>53</u>	<u>-</u>	<u>929</u>	<u>-</u>	<u>419</u>	<u>-</u>
Other comprehensive income net of tax		<u>3,190</u>	<u>1</u>	<u>(1,982)</u>	<u>(1)</u>	<u>(69)</u>	<u>-</u>	<u>(7,744)</u>	<u>(1)</u>
Total comprehensive income		<u>\$ 32,724</u>	<u>12</u>	<u>\$ 2,696</u>	<u>-</u>	<u>\$ 63,628</u>	<u>8</u>	<u>\$ 61,822</u>	<u>7</u>
Net income (loss) for the periods attributable to :									
Owners of the parent		<u>\$ 29,534</u>		<u>\$ 4,678</u>		<u>\$ 63,697</u>		<u>\$ 69,566</u>	
Comprehensive income (loss) for the periods attributable to :									
Owners of the parent		<u>\$ 32,724</u>		<u>\$ 2,696</u>		<u>\$ 63,628</u>		<u>\$ 61,822</u>	
Earnings Per Share (in New Taiwan Dollars)									
Basic Earnings Per Share									
Net income	6(22)	<u>\$ 0.97</u>		<u>\$ 0.15</u>		<u>\$ 2.10</u>		<u>\$ 2.32</u>	
Diluted Earnings Per Share									
Net income	6(22)	<u>\$ 0.96</u>		<u>\$ 0.15</u>		<u>\$ 2.08</u>		<u>\$ 2.28</u>	

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

Chairman : Quincy Lin

President : Marshall Lee / Ken Li

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 nine months ended September 30, 2023 and 2022  
(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent											
	Share capital			Capital surplus	Retained earnings			Other equity			Treasury shares	Total equity
	Common stock	Capital collected in advance	Stock to be cancelled		Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income	Unearned employee remuneration		
Balance as of January 1, 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	-	-	-	-	-	-	69,566	-	-	-	-	69,566
Other comprehensive income for the period	-	-	-	-	-	-	-	419	(8,163)	-	-	(7,744)
Total comprehensive income	-	-	-	-	-	-	69,566	419	(8,163)	-	-	61,822
Share-based payment transactions	40	(1,084)	(80)	3,605	-	-	-	-	-	10,690	21,130	34,301
Balance as of September 30, 2022	<u>\$ 307,871</u>	<u>\$ -</u>	<u>\$ (80)</u>	<u>\$ 412,043</u>	<u>\$ 162,722</u>	<u>\$ 891</u>	<u>\$ 607,711</u>	<u>\$ (471)</u>	<u>\$ (12,005)</u>	<u>\$ (21,894)</u>	<u>\$ (21,633)</u>	<u>\$ 1,435,155</u>
Balance as of January 1, 2023	\$ 307,791	\$ -	\$ (140)	\$ 410,425	\$ 162,722	\$ 891	\$ 659,792	\$ (436)	\$ (12,936)	\$ (16,649)	\$ (21,130)	\$ 1,490,330
Appropriation and distribution of 2022 earnings												
Legal reserve	-	-	-	-	12,165	-	(12,165)	-	-	-	-	-
Special reserve	-	-	-	-	-	12,482	(12,482)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(122,372)	-	-	-	-	(122,372)
Profit for the period	-	-	-	-	-	-	63,697	-	-	-	-	63,697
Other comprehensive income for the period	-	-	-	-	-	-	-	929	(998)	-	-	(69)
Total comprehensive income	-	-	-	-	-	-	63,697	929	(998)	-	-	63,628
Share-based payment transactions	(392)	-	56	(5,181)	-	-	-	-	-	11,782	-	6,265
Balance as of September 30, 2023	<u>\$ 307,399</u>	<u>\$ -</u>	<u>\$ (84)</u>	<u>\$ 405,244</u>	<u>\$ 174,887</u>	<u>\$ 13,373</u>	<u>\$ 576,470</u>	<u>\$ 493</u>	<u>\$ (13,934)</u>	<u>\$ (4,867)</u>	<u>\$ (21,130)</u>	<u>\$ 1,437,851</u>

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

Chairman : Quincy Lin

President : Marshall Lee / Ken Li

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 nine months ended September 30, 2023 and 2022  
(Amounts in thousands of New Taiwan Dollars)

Description	For the nine months ended September 30	
	2023	2022
Cash flows from operating activities:		
Net income before income tax	\$ 66,470	\$ 85,346
Adjustments for:		
Profit or loss items:		
Depreciation	12,448	15,009
Amortization	39,353	38,174
Expected credit losses	1,102	2,934
Net losses on financial assets and liabilities at fair value through profit or loss	(2,767)	26,076
Interest expenses	145	156
Interest income	(3,709)	(2,137)
Dividend income	(8,911)	(6,962)
Compensation cost of share-based payments	8,098	19,305
Share of (profit)/loss of associates and joint ventures accounted for using the equity method	1,132	549
Unrealized profit from sales	(772)	983
Changes in assets and liabilities relating to operating activities:		
Trade receivables	14,287	18,770
Trade receivables from related parties	854	(545)
Other receivables	4,483	28,258
Inventories	63,465	(220,120)
Prepayments	(1,057)	6,593
Other current assets	554	729
Cost to fulfill a contract	6,025	(1,804)
Contract liabilities	(137,962)	247,317
Trade payables	(7,574)	25,448
Other payables	(3,072)	(17,586)
Other current liabilities	(178)	(52)
Cash generated from operating activities	<u>52,414</u>	<u>266,441</u>
Interest received	3,705	2,110
Dividend received	8,911	6,962
Interest paid	(145)	(156)
Income tax paid	<u>(3,941)</u>	<u>(24,657)</u>
Net cash provided by operating activities	<u>60,944</u>	<u>250,700</u>
Cash flows from investing activities:		
Acquisition of financial assets at fair value through profit or loss	-	(44,945)
Acquisition of property, plant and equipment	(603)	(6,853)
Increase in refundable deposits	(2)	(114)
Decrease in refundable deposits	84	30
Acquisition of intangible assets	(19,517)	(52,582)
Decrease in other non-current assets	-	25
Net cash used in investing activities	<u>(20,038)</u>	<u>(104,439)</u>
Cash flows from financing activities:		
Cash payment for principal portion of lease liabilities	(4,411)	(5,624)
Cash dividends	(122,372)	(152,216)
Proceeds from exercise of employee stock options	-	5,420
Proceeds from transfer of treasury shares to employees	-	15,577
Expired restricted stock for employees	-	(2,405)
Net cash provided by (used in) financing activities	<u>(126,783)</u>	<u>(139,248)</u>
Effect of changes in exchange rate on cash and cash equivalents	940	(48)
Net increase (decrease) in cash and cash equivalents	(84,937)	6,965
Cash and cash equivalents at the beginning of the period	586,925	615,224
Cash and cash equivalents at the end of the period	<u>\$ 501,988</u>	<u>\$ 622,189</u>

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

Chairman : Quincy Lin

President : Marshall Lee / Ken Li

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 nine-month periods ended September 30, 2023 and 2022 of the Company and subsidiaries (the “Group”) were authorized for issue in accordance with a resolution of the Board of Directors on November 8, 2023.

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, 2023. 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	“Classification of Liabilities as Current or Non-Current” (Amendment to IAS 1)	January 1, 2024
2	Lease Liability in a Sale and Leaseback (Amendment to IAS 16)	January 1, 2024
3	Non-current Liabilities with Covenants (Amendment to IAS 1)	January 1, 2024
4	Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)	January 1, 2024

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

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

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

**B. Lease Liability in a Sale and Leaseback (Amendment to IAS 16)**

The amendments add seller-leasees additional requirement for the sale and leaseback transactions in IFRS 16, thereby supporting the consistent application of the standard.

**C. Non-current Liabilities with Covenants (Amendment to IAS 1)**

The amendments improved the information companies provide about long-term debt with covenants. The amendments specify that covenants to be complied within twelve months after the reporting period do not affect the classification of debt as current or non-current at the end of the reporting period.

**D. Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)**

The amendments introduced additional information of supplier finance arrangements and added disclosure requirements for such arrangements.

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

(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	Lack of Exchangeability (Amendment to IAS 21)	January 1, 2025

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

The amendments address the 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

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

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.

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 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 for annual periods 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. Lack of Exchangeability (Amendment to IAS 21)**

The amendments in Lack of Exchangeability (Amendments to IAS 21) amend IAS 21 to specify when a currency is exchangeable into another currency and when it is not, how an entity determines the exchange rate to apply when a currency is not exchangeable, and require the disclosure of additional information when a currency is not exchangeable. These amendments apply to accounting periods beginning on or after January 1, 2025.

**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 nine-month periods ended September 30, 2023 and 2022 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. Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss, or transfer directly to retained earnings if require by other IFRSs; and
- F. Recognizes any surplus or deficit in profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Main business activities	Percentage of ownership		
			September 30, 2023	December 31, 2022	September 30, 2022
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 Microsystems, Inc.	Rafael Semiconductors, Inc.	Design and sell RF IC products	100%	100%	100%

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\$28,992 thousand and NT\$28,284 thousand and total liabilities amounting to NT\$4,544 thousand and NT\$4,209 thousand as of September 30, 2023 and 2022, respectively, and total comprehensive income (loss) amounting to NT\$(7,196) thousand, NT\$(7,090) thousand, NT\$(25,167) thousand and NT\$(23,103) thousand for the three-month and nine-month periods ended September 30, 2023 and 2022, 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), the same accounting policies have been followed in the consolidated financial statements for the nine-month period ended September 30, 2023 as were applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2022. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2022.

- (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.

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 nine-month periods ended September 30, 2023 and 2022 as were applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2022. Please refer to the consolidated financial statements for the year ended December 31, 2022.

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

6. Contents of Significant Accounts

## (1) Cash and cash equivalents

	September 30, 2023	December 31, 2022	September 30, 2022
Cash on hand	\$764	\$815	\$808
Checking and savings accounts	248,724	208,610	243,881
Time deposits	252,500	377,500	377,500
Total	<u>\$501,988</u>	<u>\$586,925</u>	<u>\$622,189</u>

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

	September 30, 2023	December 31, 2022	September 30, 2022
Financial assets mandatorily measured at fair value through profit or loss:			
Listed company stocks	<u>\$340,035</u>	<u>\$337,268</u>	<u>\$347,241</u>

The Group invested NT\$44,945 thousand in cash in 4,830 thousand shares of preferred B share of China Development Financial Holding Corp for the nine-month ended September 30, 2022.

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

	September 30, 2023	December 31, 2022	September 30, 2022
Equity instrument investments at fair value through other comprehensive income – non-current:			
Unlisted company stocks	<u>\$5,208</u>	<u>\$6,206</u>	<u>\$7,137</u>

Part of the Company's financial assets was classified as financial assets at fair value through other comprehensive income and was not pledged.

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

	September 30, 2023	December 31, 2022	September 30, 2022
Time deposits	<u>\$14,700</u>	<u>\$14,700</u>	<u>\$14,700</u>

## (5) Trade receivables

	September 30, 2023	December 31, 2022	September 30, 2022
Trade receivables	\$98,688	\$112,975	\$90,227
Less: allowance for doubtful debts	(22,969)	(21,867)	(22,635)
Subtotal	<u>75,719</u>	<u>91,108</u>	<u>67,592</u>
Trade receivables from related parties	-	854	1,140

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

Less: allowance for doubtful debts	-	-	-
Subtotal	<u>-</u>	<u>854</u>	<u>1,140</u>
Total	<u>\$75,719</u>	<u>\$91,962</u>	<u>\$68,732</u>

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\$98,688 thousand, NT\$113,829 thousand and NT\$91,367 thousand as of September 30, 2023, December 31, 2022 and September 30, 2022, respectively. Please refer to Note 6(16) for more details on impairment of trade receivables for the nine months ended September 30, 2023 and 2022, and Note 12 for more details on credit risk management.

**(6) Inventories**

	September 30, 2023	December 31, 2022	September 30, 2022
Raw materials	\$130,117	\$120,776	\$126,311
Work in process	129,719	148,469	127,994
Finished goods	151,978	206,034	234,993
Total	<u>\$411,814</u>	<u>\$475,279</u>	<u>\$489,298</u>

The cost of inventories recognized in expenses amounted to NT\$154,684 thousand and NT\$177,878 thousand, including reversal of write-down of inventories of NT\$3,336 thousand and the write-down of inventories of NT\$(7,033) thousand for the three months ended September 30, 2023 and 2022, respectively.

The cost of inventories recognized in expenses amounted to NT\$498,232 thousand and NT\$463,647 thousand, including write-down of inventories of NT\$(7,474) thousand and NT\$(10,639) thousand for the nine months ended September 30, 2023 and 2022, respectively.

The aforementioned inventories were not pledged.

**(7) Prepayments**

	September 30, 2023	December 31, 2022	September 30, 2022
Inventory - prepaid	\$1,271	\$2,298	\$2,790
Input tax	1,054	837	1,015
Others	2,718	851	1,626
Total	<u>\$5,043</u>	<u>\$3,986</u>	<u>\$5,431</u>

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

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

(8) Investments accounted for using the equity method

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

Investees	September 30, 2023		December 31, 2022		September 30, 2022	
	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying Amount	Percentage of ownership
Investments in jointly controlled entities:						
Aluksen Hongxin Technology Co., Ltd.	<u>\$7,133</u>	49%	<u>\$7,482</u>	49%	<u>\$7,965</u>	49%

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		Nine months ended	
	September 30		September 30	
	2023	2022	2023	2022
Net loss from continuing operations	\$(225)	\$(160)	\$(1,132)	\$(549)
Other comprehensive income	-	-	-	-
Total comprehensive income	<u>\$(225)</u>	<u>\$(160)</u>	<u>\$(1,132)</u>	<u>\$(549)</u>

The investments accounted for using the equity method were NT\$7,133 thousand and NT\$7,965 thousand as of September 30, 2023 and 2022, respectively, the share of profit (loss) of associates and joint ventures accounted for using the equity method amounted to NT\$(225) thousand, NT\$(160) thousand, NT\$(1,132) thousand and NT\$(549) thousand for the three months and nine months ended September 30, 2023 and 2022, 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 nine months ended September 30, 2023 and 2022, respectively. These amounts disclosed were based on the unreviewed financial statements of the investee companies.

(9) Property, plant and equipment

	September 30, 2023	December 31, 2022	September 30, 2022
Owner-occupied property, plant and equipment	<u>\$214,452</u>	<u>\$221,728</u>	<u>\$224,834</u>

Cost:	Buildings and facilities					Total
	Land	Testing equipment	Office equipment	Transportation equipment		
As of January 1, 2023	\$ 128,490	\$ 84,968	\$ 36,344	\$ 8,035	\$ 2,500	\$ 260,337
Additions	-	-	55	548	-	603
Disposals	-	-	(10,862)	(915)	-	(11,777)
Exchange differences	-	-	3	4	-	7
As of September 30, 2023	<u>\$ 128,490</u>	<u>\$ 84,968</u>	<u>\$ 25,540</u>	<u>\$ 7,672</u>	<u>\$ 2,500</u>	<u>\$ 249,170</u>

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of January 1, 2022	\$ 128,490	\$ 84,968	\$ 31,414	\$ 9,859	\$ 2,500	\$ 257,231
Additions	-	-	6,210	1,702	-	7,912
Disposals	-	-	(1,156)	(2,993)	-	(4,149)
Exchange differences	-	-	-	74	-	74
As of September 30, 2022	<u>\$ 128,490</u>	<u>\$ 84,968</u>	<u>\$ 36,468</u>	<u>\$ 8,642</u>	<u>\$ 2,500</u>	<u>\$ 261,068</u>
Depreciation and impairment:						
As of January 1, 2023	\$ -	\$ 11,359	\$ 20,418	\$ 4,957	\$ 1,875	\$ 38,609
Depreciation	-	1,275	4,651	1,576	375	7,877
Disposals	-	-	(10,862)	(915)	-	(11,777)
Exchange differences	-	-	5	4	-	9
As of September 30, 2023	<u>\$ -</u>	<u>\$ 12,634</u>	<u>\$ 14,212</u>	<u>\$ 5,622</u>	<u>\$ 2,250</u>	<u>\$ 34,718</u>
As of January 1, 2022	\$ -	\$ 9,659	\$ 14,278	\$ 5,764	\$ 1,375	\$ 31,076
Depreciation	-	1,275	5,473	2,127	375	9,250
Disposals	-	-	(1,156)	(2,993)	-	(4,149)
Exchange differences	-	-	5	52	-	57
As of September 30, 2022	<u>\$ -</u>	<u>\$ 10,934</u>	<u>\$ 18,600</u>	<u>\$ 4,950</u>	<u>\$ 1,750</u>	<u>\$ 36,234</u>
Net carrying amount as of:						
September 30, 2023	<u>\$ 128,490</u>	<u>\$ 72,334</u>	<u>\$ 11,328</u>	<u>\$ 2,050</u>	<u>\$ 250</u>	<u>\$ 214,452</u>
December 31, 2022	<u>\$ 128,490</u>	<u>\$ 73,609</u>	<u>\$ 15,926</u>	<u>\$ 3,078</u>	<u>\$ 625</u>	<u>\$ 221,728</u>
September 30, 2022	<u>\$ 128,490</u>	<u>\$ 74,034</u>	<u>\$ 17,868</u>	<u>\$ 3,692</u>	<u>\$ 750</u>	<u>\$ 224,834</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, 2023	\$10,732	\$43,750	\$117,306	\$171,788
Additions-acquired separately	176	18,457	884	19,517
Derecognized upon retirement	(5,601)	(16,771)	(9,743)	(32,115)
As of September 30, 2023	<u>\$5,307</u>	<u>\$45,436</u>	<u>\$108,447</u>	<u>\$159,190</u>
As of January 1, 2022	\$9,474	\$101,960	\$89,632	\$201,066
Additions-acquired separately	1,178	24,225	27,179	52,582
Derecognized upon retirement	-	(66,796)	-	(66,796)
As of September 30, 2022	<u>\$10,652</u>	<u>\$59,389</u>	<u>\$116,811</u>	<u>\$186,852</u>
Amortization and impairment:				
As of January 1, 2023	\$7,980	\$20,188	\$57,655	\$85,823
Amortization	831	10,031	28,491	39,353
Derecognized upon retirement	(5,601)	(16,771)	(9,743)	(32,115)
As of September 30, 2023	<u>\$3,210</u>	<u>\$13,448</u>	<u>\$76,403</u>	<u>\$93,061</u>

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of January 1, 2022	\$6,763	\$89,896	\$20,484	\$117,143
Amortization	921	9,844	27,409	38,174
Derecognized upon retirement	-	(66,796)	-	(66,796)
As of September 30, 2022	<u>\$7,684</u>	<u>\$32,944</u>	<u>\$47,893</u>	<u>\$88,521</u>
Net carrying amount as of:				
September 30, 2023	<u>\$2,097</u>	<u>\$31,988</u>	<u>\$32,044</u>	<u>\$66,129</u>
December 31, 2022	<u>\$2,752</u>	<u>\$23,562</u>	<u>\$59,651</u>	<u>\$85,965</u>
September 30, 2022	<u>\$2,968</u>	<u>\$26,445</u>	<u>\$68,918</u>	<u>\$98,331</u>

Amortization expenses of intangible assets were as follows:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
R&D Expenses	<u>\$13,443</u>	<u>\$14,001</u>	<u>\$39,353</u>	<u>\$38,174</u>

## (11) Other non-current assets

	September 30, 2023	December 31, 2022	September 30, 2022
Prepayment - long term	\$1,754	\$1,754	\$1,754
Others	970	1,053	1,041
Total	<u>\$2,724</u>	<u>\$2,807</u>	<u>\$2,795</u>

## (12) Post-employment benefits plans

Defined contribution plan

The Group's pension expenses under the defined contribution plan were NT\$1,682 thousand and NT\$1,768 thousand for the three months ended September 30, 2023 and 2022, respectively. Pension expenses under the defined contribution plan were NT\$5,059 thousand and NT\$5,316 thousand for the nine months ended September 30, 2023 and 2022, respectively.

## (13) Equity

## A. Share capital

As of September 30, 2023, December 31, 2022 and September 30, 2022, 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\$307,399 in 30,740 thousand shares, NT\$307,791 in 30,779 thousand shares and NT\$307,871 in 30,787 thousand shares, respectively, each at

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

a 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.

For the nine months ended September 30, 2023, the Company redeemed 34 thousand shares of issued restricted stocks for employees. As of September 30, 2023, 8 thousand shares were not yet registered and therefore NT\$84 thousand were classified as capital to be cancelled, while the registration has completed for the rest of the aforementioned shares.

For the nine months ended September 30, 2022, the Company redeemed 52 thousand shares of issued restricted stocks for employees. As of September 30, 2022, 8 thousand shares were not yet registered and therefore NT\$80 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**

	September 30, 2023	December 31, 2022	September 30, 2022
Additional paid-in capital	\$374,203	\$349,994	\$349,994
Treasury shares transactions	4,743	4,743	4,695
Employee stock options	-	2,174	2,174
Restricted stocks for employees	18,786	48,175	49,841
Others	7,512	5,339	5,339
Total	<u>\$405,244</u>	<u>\$410,425</u>	<u>\$412,043</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.

**C. Treasury shares**

	September 30, 2023	December 31, 2022	September 30, 2022
Amount	<u>\$21,130</u>	<u>\$21,130</u>	<u>\$21,633</u>
Shares (in thousands)	<u>168</u>	<u>168</u>	<u>172</u>

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

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

details.

The Company transferred 172 thousand treasury shares to employees in 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.

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

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

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 2022 and 2021 earnings and dividends per share as resolved by the general shareholders' meetings on June 13, 2023 and June 15, 2022, respectively, were as follows:

	Appropriation and distribution of earnings		Dividends per share (NT\$)	
	2022	2021	2022	2021
Legal reserve	\$12,165	\$16,646	\$-	\$-
Appropriate/(reverse) special reserve	12,482	477	-	-
Cash dividends-common stock (Note)	122,372	152,216	4.0	5.0

Note: The Board of Directors adopted a special resolution to distribute cash dividend for NT\$4 per share on March 22, 2023.

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

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.

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

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

Date of grant	Total units of option granted	Exercise price per unit (Note)
---------------	-------------------------------	--------------------------------

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

August 10, 2017                      167 thousand                      NT\$126.4

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

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:

	Nine months ended September 30			
	2023		2022	
	Options (thousand units)	Weighted average exercise price (NT\$)	Options (thousand units)	Weighted average exercise price (NT\$)
Stock options				
Outstanding at beginning of period	50	\$129.9	90	\$135.5
Forfeited	(50)	126.4	-	-
Exercised (Note)	-	-	(40)	135.5
Outstanding at end of period	-	-	50	135.5
Exercisable at end of period	-	-	50	-

Note: For nine months ended September 30, 2023, the weighted average share price was NT\$254.5 at the dates of exercise of those options.

The information of outstanding options of the aforementioned share-based payment plan as of September 30, 2023, December 31, 2022 and September 30, 2022 was as follows:

	Range of exercise price	Weighted average remaining years
September 30, 2023		

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

Outstanding stock options December 31, 2022	NT\$126.4	-
Outstanding stock options September 30, 2022	NT\$129.9	0.583
Outstanding stock options	NT\$135.5	0.833

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

Based on the Plan, the new restricted stocks were granted to employees on February 27, 2019, May 6, 2019, October 25, 2019, April 30, 2020 and July 30, 2020, respectively. The life of this plan is 3 years. Subsequent to the second anniversary of the grant date, those employees who fulfill certain service conditions are gradually eligible to the vested stocks at certain percentage and timeline. During the vesting period, eligible employees are subject to the terms and conditions as follows:

- (a) May not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted 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 new restricted stocks shall be deemed failing the vesting conditions on the effective day when an eligible employee voluntarily resigns, retires or is laid off during the vesting period. The Company will redeem the issued restricted stocks at the issued price and cancel the full number of the share.

Based on the Plan, the new restricted stocks were granted to employees on November 11, 2020, May 5, 2021, and August 11, 2021, respectively. The life of this plan is 3 years. Subsequent to the second anniversary of the grant date, those employees who fulfill both service 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:

- (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

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

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

The information of the outstanding restricted stocks for employees as of September 30, 2023 was as follows:

Date of grant	Shares issued (thousand)	Exercise price (NT\$)	Fair value per unit (NT\$)	Number of restricted shares as of September 30, 2023 (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	-
July 30, 2020	12	\$82.8	\$55.2	-
November 11, 2020	243	\$-	\$129.0	102
May 5, 2021	30	\$-	\$146.5	30
August 11, 2021	38	\$-	\$227.5	12

The Group recognized NT\$613 thousand, NT\$4,062 thousand, NT\$2,328 thousand and NT\$13,574 thousand as compensation expense for the three months and nine months ended September 30, 2023 and 2022, respectively. NT\$18,786 thousand and NT\$49,841 thousand were recorded as capital surplus-restricted stocks, and NT\$4,867 thousand and NT\$21,894 thousand were recognized as unearned employee compensation as of September 30, 2023 and 2022, respectively.

**C. Transferring treasury stocks to employees in the company**

The company, in order to motivate employees, decided through a board resolution on April 6, 2010, to repurchase company shares and transfer them to employees. Subsequently, a total of 340 thousand shares were repurchased.

On May 4, 2022, and November 9, 2022, our company, through board resolutions, approved the transfer of 168 thousand shares and 4 thousand shares, respectively, to employees. The exercise price per share was set at NT\$93 and NT\$75, respectively, while the grant date prices were NT\$154 and NT\$138, respectively. The recipients of these shares were employees of the group who met specific conditions.

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

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

The total compensation cost for the cash-settled share-based payment was measured at fair value on the grant date by using Black-Scholes Option Pricing Model, and will be remeasured at the end of each reporting period until settlement. As of September 30, 2023, the assumptions used were as below:

	<u>Stock appreciation right plan for employees</u>
Share price on measurement date (per share)	NT\$130
Expected volatility	37.40%
Expected life	0.58Years
Expected dividend yield	2.94%
Risk free interest rate	0.98%

The Group reversed and recognized the compensation costs of NT\$179 thousand and NT\$1,833 thousand for the three-month and nine-month periods ended September 30, 2023, respectively. The liabilities for stock appreciation right recognized were NT\$3,336 thousand which was classified as other payables as of September 30, 2023, respectively. The intrinsic value for the vested rights was nil.

The Group reversed and recognized the compensation costs of NT\$223 thousand and NT\$3,596 thousand for the three-month and nine-month periods ended September 30, 2022, respectively. The liabilities for stock appreciation right recognized were NT\$3,596 thousand which were classified as other payables and other long-term payables amounted to NT\$1,826 thousand and NT\$1,770 thousand as of September 30, 2022, respectively. The intrinsic value for the vested rights was nil.

E. Share-based compensation expenses recognized for employee services received are shown

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

in the following table:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Restricted stocks for employees	\$613	\$4,062	\$2,328	\$13,574
Treasury shares transferred to employees	1,312	1,278	3,937	2,135
Stock appreciation right plan	(179)	223	1,833	3,596
Total	\$1,746	\$5,563	\$8,098	\$19,305

The Company did not cancel or modify any share-based payment plans for the nine months ended September 30, 2023 and 2022.

## (15) Operating revenue

Analysis of revenue from contracts with customers for the nine months ended September 30, 2023 and 2022 was as follows:

## A. Disaggregation of revenue

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Sale of goods	\$209,787	\$257,520	\$729,228	\$798,386
Services	50,070	16,627	65,135	38,972
Total	\$259,857	\$274,147	\$794,363	\$837,358
Revenue recognition point:				
At a point in time	\$209,787	\$257,520	\$729,228	\$798,386
Satisfied the performance obligation over time	50,070	16,627	65,135	38,972
Total	\$259,857	\$274,147	\$794,363	\$837,358

## B. Contract balances

## Contract liabilities – current

	September 30, 2023	December 31, 2022	September 30, 2022	January 1, 2022
Sale of goods	\$5,506	\$132,198	\$242,657	\$5,489
Services	3,025	14,295	13,280	3,131
Total	\$8,531	\$146,493	\$255,937	\$8,620

The significant changes in the Group's balances of contract liabilities for the nine months ended September 30, 2023 and 2022 were as follows:

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Nine months ended September 30	
	2023	2022
Revenue recognized during the period that was included in the beginning balance	\$(140,740)	\$(5,489)
Increase in receipt in advance during the period (deducting the amount incurred and transferred to revenue during the period)	2,778	252,806

## C. Transaction price allocated to unsatisfied performance obligations

As of September 30, 2023, 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\$11,720 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 6 months.

As of September 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\$67,586 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 15 months.

## D. Assets recognized via acquisition or cost to fulfill a contract

	September 30, 2023	December 31, 2022	September 30, 2022
Cost to fulfill a contract - current	<u>\$316</u>	<u>\$6,341</u>	<u>\$13,743</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\$32,432 thousand, NT\$17,742 thousand, NT\$51,341 thousand and NT\$47,254 thousand amortization were recorded as operating costs for the three-month and nine-month periods ended September 30, 2023 and 2022.

## (16) Expected credit losses

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Operating expense – Expected credit losses				
Trade receivables	<u>\$801</u>	<u>\$1,473</u>	<u>\$1,102</u>	<u>\$2,934</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)

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 September 30, 2023, December 31, 2022 and September 30, 2022 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:

September 30, 2023	Neither past		Past due				Total
	due	< 30 days	31-60 days	61-90 days	91-120 days	> 121 days	
Group 1							
Gross carrying amount	\$62,815	\$-	\$-	\$-	\$-	\$-	\$62,815
Loss ratio	0%	5%	10%	30%	70%	100%	
Lifetime expected credit losses	-	-	-	-	-	-	-
Subtotal	\$62,815	\$-	\$-	\$-	\$-	\$-	\$62,815
Group 2							
Gross carrying amount	\$12,904	\$-	\$-	\$-	\$-	\$22,969	\$35,873
Loss ratio	0%	0%	5%	10%	30%	70%~100%	
Lifetime expected credit losses	-	-	-	-	-	(22,969)	(22,969)
Subtotal	\$12,904	\$-	\$-	\$-	\$-	\$-	\$12,904
Carrying amount							\$75,719
December 31, 2022							
Group 1							
Gross carrying amount	\$83,658	\$ -	\$ 85	\$ -	\$ -	\$ -	\$83,743
Loss ratio	0%	5%	10%	30%	70%	100%	
Lifetime expected credit losses	-	-	(9)	-	-	-	(9)
Total	\$83,658	\$ -	\$ 76	\$ -	\$ -	\$ -	\$83,734
Group 2							
Gross carrying amount	\$8,228	\$ -	\$ -	\$ -	\$ -	\$21,858	\$30,086
Loss ratio	0%	0%	5%	10%	30%	70%~100%	
Lifetime expected credit losses	-	-	-	-	-	(21,858)	(21,858)
Subtotal	\$8,228	\$ -	\$ -	\$ -	\$ -	\$ -	\$8,228
Carrying amount							\$91,962
September 30, 2022							
Group 1							
Gross carrying amount	\$68,048	\$720	\$-	\$-	\$-	\$-	\$68,768
Loss ratio	0%	5%	10%	30%	70%	100%	
Lifetime expected credit losses	-	(36)	-	-	-	-	(36)
Total	\$68,048	\$684	\$-	\$-	\$-	\$-	\$68,732

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Group 2	Neither past due	Past due					Total
		< 120 days	121-150 days	151-180 days	181-270 days	> 271 days	
Gross carrying amount	\$-	\$-	\$-	\$-	\$-	\$22,599	\$22,599
Loss ratio	0%	0%	5%	10%	30%	70%~100%	
Lifetime expected credit losses	-	-	-	-	-	(22,599)	(22,599)
Subtotal	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Carrying amount							<u>\$68,732</u>

The movements in the provision for impairment of trade receivables for the nine months ended September 30, 2023 and 2022 were as follows:

	<u>Trade receivables</u>
As of January 1, 2023	\$21,867
Allowance for the current period	1,102
As of September 30, 2023	<u>\$22,969</u>
As of January 1, 2022	\$19,701
Allowance for the current period	2,934
As of September 30, 2022	<u>\$22,635</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

	<u>September 30, 2023</u>	<u>December 31, 2022</u>	<u>September 30, 2022</u>
Buildings and facilities	<u>\$7,547</u>	<u>\$7,156</u>	<u>\$4,597</u>

For the nine months ended September 30, 2023 and 2022, the additions to right-of-use assets of the Group amounted to NT\$4,977 thousand and NT\$741 thousand, 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)

## (b) Lease liabilities

	September 30, 2023	December 31, 2022	September 30, 2022
Lease liabilities	\$7,602	\$7,032	\$4,394
Current	\$3,973	\$3,979	\$4,394
Non-current	3,629	3,053	-
Total	\$7,602	\$7,032	\$4,394

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 nine months ended September 30, 2023 and 2022.

## B. Amounts reported on the Statement of Comprehensive Income

## Depreciation charge for right-of-use assets

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Buildings and facilities	\$976	\$1,921	\$4,571	\$5,759

## C. Income and costs relating to leasing activities

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Expense relating to short-term leases	\$67	\$134	\$370	\$1,286
Expense relating to leases of low-value assets	4	5	26	29
Total	\$71	\$139	\$396	\$1,315

## D. Cash outflow relating to leasing activities

For the nine months ended September 30, 2023 and 2022, the Group's total cash outflows for leases amounted to NT\$4,952 thousand and NT\$7,095 thousand, respectively.

## 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

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

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 September 30					
	2023			2022		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Payroll	\$-	\$43,443	\$43,443	\$-	\$46,495	\$46,495
Labor/Health insurance	-	3,369	3,369	-	3,375	3,375
Pension	-	1,682	1,682	-	1,768	1,768
Meals	-	677	677	-	726	726
Others	-	2,800	2,800	-	400	400
Depreciation	-	3,470	3,470	-	5,038	5,038
Amortization	-	13,443	13,443	-	14,001	14,001

Functions Nature	Nine months ended September 30					
	2023			2022		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Payroll	\$-	\$130,787	\$130,787	\$-	\$157,645	\$157,645
Labor/Health insurance	-	10,120	10,120	-	10,155	10,155
Pension	-	5,059	5,059	-	5,316	5,316
Meals	-	2,067	2,067	-	2,172	2,172
Others	-	2,830	2,830	-	4,035	4,035
Depreciation	-	12,448	12,448	-	15,009	15,009
Amortization	-	39,353	39,353	-	38,174	38,174

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

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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\$3,000 thousand and NT\$2,800 thousand of employees' compensation and remuneration to directors based on the profit of the nine months ended September 30, 2023, respectively. The amounts reversal on employees' compensation and remuneration to directors were NT\$3,000 thousand and NT\$2,800 thousand for the three months ended September 30, 2023, respectively. The Company accrued and recognized NT\$13,200 thousand and NT\$4,000 thousand of employees' compensation and remuneration to directors based on the profit of the nine months ended September 30, 2022, respectively. The amounts recognized as employees' compensation and remuneration to directors were NT\$0 thousand and NT\$400 thousand for the three months ended September 30, 2022, 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 22, 2023 to distribute NT\$23,000 thousand and NT\$6,000 thousand in cash as 2022 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 2021.

## (19) Non-operating incomes and expenses

## A. Interest income

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Financial assets measured at amortized cost	\$810	\$752	\$3,709	\$2,137

## B. Other income

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Dividend income	\$8,911	\$6,962	\$8,911	\$6,962
Other income-others	19	122	52	1,127
Total	\$8,930	\$7,084	\$8,963	\$8,089

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

## C. Other gains and losses

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Net foreign exchange gains/(losses)	\$5,369	\$9,781	\$8,988	\$18,924
Gains (losses) on financial assets at fair value through profit or loss	(4,435)	(15,714)	2,767	(26,076)
Others	(269)	(1,126)	(1,520)	(1,574)
Total	\$665	\$(7,059)	\$10,235	\$(8,726)

## D. Finance costs

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Interest expense on lease liabilities	\$(66)	\$(40)	\$(145)	\$(156)

## (20) Components of other comprehensive income

For the three months ended September 30, 2023:

	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	\$1,586	\$-	\$1,586	\$-	\$1,586
May be reclassified to profit or loss subsequently:					
Exchange differences resulting from translating the financial statements of foreign operations	1,604	-	1,604	-	1,604
Total	\$3,190	\$-	\$3,190	\$-	\$3,190

For the three months ended September 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	\$(2,035)	\$-	\$(2,035)	\$-	\$(2,035)
May be reclassified to profit or loss subsequently:					
Exchange differences resulting from translating the financial statements of foreign operations	53	-	53	-	53
Total	\$(1,982)	\$-	\$(1,982)	\$-	\$(1,982)

**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 nine months ended September 30, 2023:

	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	\$(998)	\$-	\$(998)	\$-	\$(998)
May be reclassified to profit or loss subsequently:					
Exchange differences resulting from translating the financial statements of foreign operations	929	-	929	-	929
<b>Total</b>	<b>\$(69)</b>	<b>\$-</b>	<b>\$(69)</b>	<b>\$-</b>	<b>\$(69)</b>

For the nine months ended September 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	\$(8,163)	\$-	\$(8,163)	\$-	\$(8,163)
May be reclassified to profit or loss subsequently:					
Exchange differences resulting from translating the financial statements of foreign operations	419	-	419	-	419
<b>Total</b>	<b>\$(7,744)</b>	<b>\$-</b>	<b>\$(7,744)</b>	<b>\$-</b>	<b>\$(7,744)</b>

(21) Income tax

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

Income tax recognized in profit or loss

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Current income tax expense (income):				
Current income tax charge	\$5,819	\$1,861	\$11,392	\$21,173
Tax expense of prior periods recognized in the period	27	15	(8,941)	(1,189)
Deferred tax expense (income):				
Deferred tax income relating to origination and reversal of temporary differences	1,055	(931)	322	(4,204)
<b>Income tax expense (income)</b>	<b>\$6,901</b>	<b>\$945</b>	<b>\$2,773</b>	<b>\$15,780</b>

**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 assessment of income tax returns

The income tax returns of the Company have been assessed and approved up to 2021 as of September 30, 2023.

(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 September 30		Nine months ended September 30	
	2023	2022	2023	2022
<b>A. Basic earnings per share</b>				
Profit of the period (in thousand NT\$)	\$29,534	\$4,678	\$63,697	\$69,566
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	30,418	30,205	30,339	29,945
Basic earnings per share (NT\$)	\$0.97	\$0.15	\$2.10	\$2.32
<b>B. Diluted earnings per share</b>				
Profit of the period after dilution (in thousand NT\$)	\$29,534	\$4,678	\$63,697	\$69,566
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	30,418	30,205	30,339	29,945
Effect of dilution:				
Employees' compensation-stock (thousand shares)	23	109	65	160
Employee stock options (thousand shares)	12	-	12	24
Restricted stocks for employees (thousand shares)	153	172	192	349
Weighted average number of ordinary shares outstanding after dilution (thousand shares)	30,606	30,486	30,608	30,478
Diluted earnings per share (NT\$)	\$0.96	\$0.15	\$2.08	\$2.28

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

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**  
**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 venture of a subsidiary

Significant transactions with related parties(1) Sales

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Jointly venture of a subsidiary	<u>\$2,609</u>	<u>\$396</u>	<u>\$2,794</u>	<u>\$2,720</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) Sales Return

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Jointly venture of a subsidiary	<u>\$(536)</u>	<u>\$-</u>	<u>\$(4,990)</u>	<u>\$-</u>

(3) Trade receivables from related parties, net

	<u>September</u>	<u>December 31,</u>	<u>September</u>
	<u>30, 2023</u>	<u>2022</u>	<u>30, 2022</u>
Aluksen Hongxin Technology Co., Ltd.	<u>\$-</u>	<u>\$854</u>	<u>\$1,140</u>

(4) Contract liabilities

	<u>September</u>	<u>December 31,</u>	<u>September</u>
	<u>30, 2023</u>	<u>2022</u>	<u>30, 2022</u>
Aluksen Hongxin Technology Co., Ltd.	<u>\$1,404</u>	<u>\$-</u>	<u>\$-</u>

(5) Key management personnel compensation of 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)

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Short-term employee benefits	\$9,433	\$6,893	\$24,328	\$27,468
Post-employment benefits	154	189	532	567
Share-based payment transactions	1,983	1,654	5,648	5,368
Total	\$11,570	\$8,736	\$30,508	\$33,403

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

On October 20, 2023, the Group received a notification from Flexium regarding a public tender offer for ordinary shares. Within fifteen days of receiving the Offeror's tender offer notification, meetings of the Review Committee and the Board of Directors are held to make recommendations to shareholders with respect to the present tender offer based on the Review Committee's review results. As of October 23, 2023, the total number of shares to be tendered in the aforementioned public tender offer amounted to 5,804 thousand shares, reaching the minimum number of shares for acquisition set by the Flexium, which was 3,074 thousand shares. Thus, the conditions of the public tender offer have been achieved.

12. Others

## (1) Categories of financial instruments

Financial assets

	September 30, 2023	December 31, 2022	September 30, 2022
Financial assets at fair value through profit or loss:			
Mandatorily measured at fair value through profit or loss	\$340,035	\$337,268	\$347,241
Financial assets at fair value through other comprehensive income	5,208	6,206	7,137
Financial assets measured at amortized cost (Note)	612,690	718,381	723,936
Total	\$957,933	\$1,061,855	\$1,078,314

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

Financial liabilities

	September 30, 2023	December 31, 2022	September 30, 2022
Financial liabilities at amortized cost:			
Trade payables	\$207,812	\$216,625	\$208,241
Lease liabilities	7,602	7,032	4,394
Total	<u>\$215,414</u>	<u>\$223,657</u>	<u>\$212,635</u>

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

(2) Objectives and policies of financial risk management

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

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

(3) Market risk

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

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,

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

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

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

When NTD appreciates or depreciates against USD by 1%, the profit for the nine months ended September 30, 2023 and 2022 would decrease/increase by NT\$965 thousand and NT\$1,202 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 nine months ended September 30, 2023 and 2022 to increase/decrease by NT\$3,400 thousand and NT\$3,472 thousand, 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)**

## (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.

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 September 30, 2023, December 31, 2022 and September 30, 2022, receivables from top ten customers represented 68.66%, 64.64% and 56.30% 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		
			September 30, 2023	December 31, 2022	September 30, 2022
Simplified method (Note)	Not applicable	Lifetime expected credit losses	\$98,688	\$113,829	\$91,367

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

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

Non-derivative financial liabilities

	Within 1 year	2-3 years	4-5 years	Total
As of September 30, 2023				
Trade Payables	\$207,812	\$-	\$-	\$207,812
Lease liabilities	4,232	3,731	-	7,963
As of December 31, 2022				
Trade payables	\$214,008	\$ 2,617	\$ -	\$216,625
Lease liabilities	4,076	3,120	-	7,196
As of September 30, 2021				
Trade Payables	\$206,471	\$1,770	\$-	\$208,241
Lease liabilities	4,439	-	-	4,439

## (6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the nine months ended September 30, 2023:

	<u>Lease liabilities</u>
As of January 1, 2023	\$7,032
Cash flows	(4,411)
Non-cash flows	
Addition of the period	4,977
Foreign exchange movement	4
As of September 30, 2023	<u><u>\$7,602</u></u>

Reconciliation of liabilities for the nine months ended September 30, 2022:

	<u>Lease liabilities</u>
As of January 1, 2022	\$9,622
Cash flows	(5,624)
Non-cash flows	

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

Addition of the period	741
Lease modifications	(370)
Foreign exchange movement	25
As of September 30, 2022	<u>\$4,394</u>

(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:

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

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

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

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

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

**B. 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 September 30, 2023:

<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	\$340,035	\$-	\$-	\$340,035
Financial assets at fair value through other comprehensive income:				
Equity instruments at fair value through other comprehensive income	\$-	\$-	\$5,208	\$5,208

As of December 31, 2022

<u>Assets measured at fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss:				
Stocks	\$337,268	\$ -	\$ -	\$337,268
Financial assets at fair value through other comprehensive income:				
Equity instruments at fair value through other comprehensive income	\$ -	\$ -	\$6,206	\$6,206

As of September 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	\$347,241	\$-	\$-	\$347,241
Financial assets at fair value through other comprehensive income:				

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

Equity instruments at fair value through other comprehensive income	\$-	\$-	\$7,137	\$7,137
---	-----	-----	---------	---------

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 nine months ended September 30, 2023 and 2022.

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:

For the nine months ended September 30, 2023

	<u>Assets</u>
	<u>Measured at fair value through other comprehensive income</u>
	<u>Stocks</u>
As of January 1, 2023	\$6,206
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)	(998)
As of September 30, 2023	<u>\$5,208</u>

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

	<u>Assets</u>
	<u>Measured at fair value through other comprehensive income</u>
	<u>Stocks</u>
As of January 1, 2022	\$15,300
Total gains/(losses) recognized for the period:	
Amount recognized in OCI (recorded as unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income)	(8,163)
As of September 30, 2022	<u>\$7,137</u>

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:

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of September 30, 2023:

Financial Assets: Financial assets at fair value through other comprehensive income	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of interrelationship between inputs and fair value
Stocks	Market approach and income approach	Lack of marketability and discount for minority interest	50%	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\$521 thousand

As of December 31, 2022:

Financial Assets: Financial assets at fair value through other comprehensive income	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of interrelationship between inputs and fair value
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\$621 thousand

As of September 30, 2022:

Financial Assets: Financial assets at fair value through other comprehensive income	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of interrelationship between inputs and fair value
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\$714 thousand

## (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:

<u>Financial assets</u>	Unit: thousands September 30, 2023
-------------------------	---------------------------------------

## RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Foreign currency	Exchange rate	NT\$
Monetary item:			
USD	\$6,473	32.26	\$208,819
CNY	5,163	4.415	22,795
EUR	1,049	33.92	35,582
KRW	173,491	0.0239	4,146

Financial liabilities

Monetary item:

USD	\$3,481	32.26	\$112,297
CNY	76	4.415	336
KRW	1,370	0.0239	33

Financial assets

Non-monetary item:

CNY	\$1,616	4.415	\$7,133
-----	---------	-------	---------

December 31, 2022

	Foreign currency	Exchange rate	NT\$
<u>Financial assets</u>			
Monetary item:			
USD	\$7,967	30.70	\$244,587
RMB	2,183	4.409	9,625
EUR	980	32.74	32,085
KRW	146,405	0.0245	3,587

Financial liabilities

Monetary item:

USD	\$3,866	30.70	\$118,686
RMB	69	4.409	304
KRW	4,924	0.0245	121

Financial assets

Non-monetary item:

RMB	\$1,697	4.409	\$7,482
-----	---------	-------	---------

September 30, 2022

	Foreign currency	Exchange rate	NT\$
<u>Financial assets</u>			
Monetary item:			
USD	\$7,640	31.74	\$242,494
CNY	2,829	4.474	12,657
EUR	873	31.25	27,281
KRW	176,234	0.0223	3,930

Financial liabilities

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

Monetary item:

USD	\$3,853	31.74	\$122,294
CNY	6	4.474	27
KRW	7,591	0.0223	169

Financial assets

Non-monetary item:

CNY	\$1,780	4.474	\$7,965
-----	---------	-------	---------

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Foreign exchange gains (losses) for monetary financial assets and liabilities	NT\$	NT\$	NT\$	NT\$
USD	\$4,967	\$9,376	\$7,508	\$18,723
CNY	293	219	307	228
EUR	109	186	1,173	(27)

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 September 30, 2023: None

B. Endorsement/guarantee provided to others as of September 30, 2023: None

C. Marketable securities held as of September 30, 2023 (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 September 30, 2023: None

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**

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

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

- 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 September 30, 2023: 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 September 30, 2023: 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 September 30, 2023: 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 September 30, 2023: 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 September 30, 2023: 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.

(4) Information of major shareholders

There was no major shareholder holding the Company's shares up to 5% or more as of September 30, 2023.

14. Segment Information

**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 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 September 30, 2023

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	September 30, 2023				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	78	\$4,742	0.00%	\$4,742	None
	Class B preferred share	Fubon Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss- current	1,952	116,730	0.29%	116,730	None
	Class C preferred share	Fubon Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss- current	2,543	142,677	0.76%	142,677	None
	Preferred share B	China Development Financial Holding Corp.	-	Financial assets at fair value through profit or loss- current	4,830	31,975	0.26%	31,975	None
	Preferred share B	CTBC Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss- current	727	43,911	0.22%	43,911	None
	Common stocks	BKS Tec Corp.	-	Financial assets at fair value through other comprehensive income - non-current	6,000	5,208	11.07%	5,208	None

**RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****THE BUSINESS RELATIONSHIP AND SIGNIFICANT TRANSACTIONS BETWEEN THE PARENT AND SUBSIDIARIES****For the nine months ended September 30, 2023**

## 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	\$21,878	Based on contract terms	2.75%
0		Rafael Microelectronics Korea	1	Consign service expenses	3,107	Based on contract terms	0.39%

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 nine months ended September 30, 2023**

## 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 September 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	\$22,808 (US\$707,000)	\$22,808 (US\$707,000)	707,000	100.00%	\$20,327	\$(918)	\$(918)	The Company's subsidiary
	Rafael Microelectronics Korea	Korea	Promote RF IC products	2,868 (US\$88,898)	2,868 (US\$88,898)	200,000	100.00%	4,102	737	737	The Company's subsidiary
Han Tang Co., Ltd	HONG YU CO., LTD.	Seychelles	General investing	22,727 (US\$704,500)	22,727 (US\$704,500)	704,500	100.00%	20,251	(918)	(918)	The Company's grandson company

Note 1: The amounts are converted at the exchange rates of September 30, 2023.

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 nine months ended September 30, 2023**

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 September 30, 2022	Net income (loss) of investee company	Direct or indirect percentage of ownership	Investment income (loss) recognized	Carrying amount as of September 30, 2022	Accumulated inward remittance of earnings as of September 30, 2022
					Outflow	Inflow						
ShenZhen Rafael Microsystems, Inc.	Technical consultation and services for RF IC products	\$11,291 (US\$350,000)	Indirect investment through investing entity in a third region (Note 2)	\$11,291 (US\$350,000)	\$-	\$-	\$11,291 (US\$350,000)	\$212	100.00%	\$212 (Note 5)	\$12,901	\$-
Aluksen Hongxin Technology Co., Ltd.	Design, development, sales, technical consultation and services for optical fiber products	11,225 (US\$347,952.05)	Indirect investment through investing entity in a third region (Note 2)	11,225 (US\$347,952.05)	-	-	11,225 (US\$347,952.05)	(2,311)	49.00%	(1,132) (Note 5)	7,133	-
Rafael Semiconductors, Inc.	Design and sell RF IC products	3,974 (RMB900,000)	Indirect investment through investing entity in a third region (Note 3)	3,974 (RMB900,000)	-	-	3,974 (RMB900,000)	(3)	100.00%	(3) (Note 5)	3,984	-

Accumulated investment in Mainland China as of September 30, 2022 (Note 4)	Investment amounts authorized by Investment Commission, MOEA (Note 4)	Upper limit on investment
\$27,032 (US\$837,952.05)	\$27,032 (US\$837,952.05)	\$861,902

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

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

Note 2: Indirectly invested in HONG YU CO., LTD. via investment in Han Tang Co., Ltd, a subsidiary of the Company, and HONG YU CO., LTD. invests these 2 companies at ShenZhen, China.

Note 3: Indirectly invested in HONG YU CO., LTD. via investment in Han Tang Co., Ltd, a subsidiary of the Company, and HONG YU CO., LTD. indirectly invested in ShenZhen Rafael Microsystems, Inc.

Note 4: The amounts in foreign currency are converted at the exchange rates of September 30, 2023.

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