

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 YEARS ENDED
DECEMBER 31, 2023 AND 2022**

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

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

Consolidated Financial Statements

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REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2023 and for the year then ended prepared under the International Financial Reporting Standards, No. 10 are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

Rafael Microelectronics, Inc.

Chairman: Cheng David

February 7, 2024

Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated balance sheets of Rafael Microelectronics, Inc. and its subsidiaries (the Group) as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2023 and 2022, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”).

In our opinion, based on our audits and the reports of other auditors (please refer to the Other Matter - Making Reference to the Audits of Component Auditors section of our report), the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023 and 2022, and their consolidated financial performance and cash flows for the years ended December 31, 2023 and 2022, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and become effective by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2023 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue recognition

The Group recognized NT\$996,020 thousand as operating revenue, which includes sale of goods in the amount of NT\$915,655 thousand, or 91.93% to the consolidated operating revenue, and rendering of services in the amount of NT\$80,365 thousand, or 8.07% to the consolidated operating revenue, for the year ended December 31, 2023. Due to the fact that selling product is the main business activity and the products are sold to markets in Asia and other regions in addition to Taiwan, it is necessary for the Group to judge and determine the performance obligation of a contract and the timing of its satisfaction. As a result, we determined the matter to be a key audit matter.

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

2. Inventories control and management

As of December 31, 2023, the Group's net inventories balance was NT\$401,835 thousand, or 25.21% to the consolidated total assets, which is considered a material item to the Group. Additionally, due to the fact that the production of RF ICs, integrated RF systems and related products are outsourced to foundries, packaging and testing manufacturers, the Group's inventories are distributed among various outsourced suppliers, which increases the complexity of managing inventory usage status. As a result, we determined the matter to be a key audit matter.

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

Other Matter – Making Reference to the Audits of Component Auditors

We did not audit the financial statements of certain subsidiaries, whose statements reflect total assets of NT\$3,563 thousand and NT\$3,589 thousand, constituting 0.22% and 0.19% of consolidated total assets as of December 31, 2023 and 2022, respectively, and total operating revenue of both nil, constituting 0% of consolidated operating revenue for the years ended December 31, 2023 and 2022, respectively. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the audit reports of the other auditors. Additionally, we did not audit the financial statements of certain associates and joint ventures accounted for under the equity method. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the reports of the other auditors. These associates and joint ventures under the equity method amounted to NT\$6,239 thousand and NT\$7,482 thousand, constituting 0.39% and 0.40% of consolidated total assets as of December 31, 2023 and 2022, respectively. The related shares of loss from the associates and joint ventures under the equity method amounted to NT\$1,482 thousand and NT\$1,105 thousand, constituting (3.85)% and (0.87)% of the consolidated income before tax for the years ended December 31, 2023 and 2022, respectively, and the related shares of other comprehensive income from the associates and joint ventures under the equity method both amounted to nil, both constituting 0% of the consolidated total comprehensive income for the years ended December 31, 2023 and 2022, respectively.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the ability to continue as a going concern of the Group, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of the Group.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Auditing of the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Based on the audit evidence obtained, conclude on the appropriateness of management's use of the going concern basis of accounting and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Group. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2023 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Others

We have audited and expressed an unqualified opinion with an Other Matter paragraph on the parent company only financial statements of Rafael Microelectronics, Inc. as of and for the years ended December 31, 2023 and 2022.

Hsu, Hsin-Min

Chiu, Wan-Ju

Ernst & Young, Taiwan

February 7, 2024

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 December 31, 2023, and 2022
(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2023	%	December 31, 2022	%
Current assets					
Cash and cash equivalents	4, 6(1), 12	\$ 435,827	28	\$ 586,925	31
Financial assets at fair value through profit or loss-current	4, 6(2), 12	339,452	21	337,268	18
Financial assets measured at amortized cost-current	4, 6(4), 12	17,769	1	14,700	1
Trade receivables, net	4, 6(5), 6(16), 12	66,872	4	91,108	5
Trade receivables from related parties, net	4, 6(5), 6(16), 7, 12	-	-	854	-
Other receivables	4, 12	23,741	2	24,556	1
Inventories	4, 5, 6(6)	401,835	25	475,279	25
Prepayments	6(7)	4,962	-	3,986	-
Other current assets		-	-	592	-
Cost to fulfill a contract-current	6(15)	2,574	-	6,341	-
Total current assets		<u>1,293,032</u>	<u>81</u>	<u>1,541,609</u>	<u>81</u>
Non-current assets					
Financial assets at fair value through other comprehensive income-non-current	4, 6(3), 12	3,529	-	6,206	-
Investments accounted for using the equity method	4, 6(8)	6,239	-	7,482	1
Property, plant and equipment	4, 6(9)	212,244	13	221,728	12
Right-of-use assets	4, 6(17)	6,478	1	7,156	1
Intangible assets	4, 6(10)	54,280	4	85,965	5
Deferred tax assets	4, 5, 6(21)	15,140	1	4,349	-
Other non-current assets	6(11), 12	2,724	-	2,807	-
Total non-current assets		<u>300,634</u>	<u>19</u>	<u>335,693</u>	<u>19</u>
Total assets		<u>\$ 1,593,666</u>	<u>100</u>	<u>\$ 1,877,302</u>	<u>100</u>

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

Chairman : Cheng David

President : Jun-Jie Chen, Ken Li

Chief Financial Officer : Qin-Ya Su

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

LIABILITIES AND EQUITY	Notes	December 31, 2023	%	December 31, 2022	%
Current liabilities					
Contract liabilities-current	4, 6(15)	\$ 8,125	1	\$ 146,493	8
Trade payables	4, 12	73,676	5	102,171	6
Other payables	4, 6(14), 12	81,954	5	111,837	6
Current tax liabilities	4, 5, 6(21)	19,106	1	15,845	1
Lease liabilities-current	4, 6(17), 12	3,959	-	3,979	-
Other current liabilities-others		522	-	607	-
Total current liabilities		<u>187,342</u>	<u>12</u>	<u>380,932</u>	<u>21</u>
Non-current liabilities					
Deferred tax liabilities	4, 5, 6(21)	611	-	370	-
Lease liabilities-non-current	4, 6(17), 12	2,593	-	3,053	-
Long-term payables	4, 6(14)	-	-	2,617	-
Total non-current liabilities		<u>3,204</u>	<u>-</u>	<u>6,040</u>	<u>-</u>
Total liabilities		<u>190,546</u>	<u>12</u>	<u>386,972</u>	<u>21</u>
Equity attributable to owners of the parent					
Share capital	6(13)				
Common stock		307,315	19	307,791	16
Stock to be cancelled		(1,015)	-	(140)	-
Capital surplus	4, 6(14)	393,163	25	410,425	22
Retained earnings	6(13)				
Legal reserve		174,887	11	162,722	9
Special reserve		13,373	1	891	-
Unappropriated earnings		554,555	34	659,792	35
Total retained earnings		<u>742,815</u>	<u>46</u>	<u>823,405</u>	<u>44</u>
Other equity		(18,028)	(1)	(30,021)	(2)
Treasury shares	6(13)	(21,130)	(1)	(21,130)	(1)
Total equity		<u>1,403,120</u>	<u>88</u>	<u>1,490,330</u>	<u>79</u>
Total liabilities and equity		<u>\$ 1,593,666</u>	<u>100</u>	<u>\$ 1,877,302</u>	<u>100</u>

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

Chairman : Cheng David

President : Jun-Jie Chen, Ken Li

Chief Financial Officer : Qin-Ya Su

English Translation of Financial Statements Originally Issued in Chinese
RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2023 and 2022
(Amount in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	2023	%	2022	%
Operating revenue	4, 6(15), 7	\$ 996,020	100	\$1,303,136	100
Operating costs	4, 6(6)	<u>(659,602)</u>	<u>(66)</u>	<u>\$ (776,172)</u>	<u>(60)</u>
Gross profit		336,418	34	526,964	40
Unrealized profit from sales		<u>390</u>	<u>-</u>	<u>(773)</u>	<u>-</u>
Gross profit, net		<u>336,808</u>	<u>34</u>	<u>526,191</u>	<u>40</u>
Operating expenses	6(12), 6(17), 6(18), 7				
Selling expenses		(39,944)	(4)	(38,944)	(3)
General and administrative expenses		(44,004)	(4)	(53,772)	(4)
Research and development expenses		(233,476)	(23)	(294,463)	(23)
Expected credit losses	4, 6(16)	<u>(15)</u>	<u>-</u>	<u>(2,166)</u>	<u>-</u>
Total operating expenses		<u>(317,439)</u>	<u>(31)</u>	<u>(389,345)</u>	<u>(30)</u>
Operating income		<u>19,369</u>	<u>3</u>	<u>136,846</u>	<u>10</u>
Non-operating income and expenses	4, 6(19)				
Interest income		5,731	1	3,548	-
Other income		10,702	1	8,278	1
Other gains and losses		4,480	-	(20,537)	(1)
Finance costs		(204)	-	(184)	-
Share of profit/(loss) of associates and joint ventures accounted for using the equity method	6(8)	<u>(1,482)</u>	<u>-</u>	<u>(1,105)</u>	<u>-</u>
Total non-operating income and expenses		<u>19,227</u>	<u>2</u>	<u>(10,000)</u>	<u>-</u>
Net income before income tax		38,596	5	126,846	10
Income tax expense	4, 5, 6(21)	<u>3,186</u>	<u>-</u>	<u>(5,199)</u>	<u>-</u>
Net income		<u>41,782</u>	<u>5</u>	<u>121,647</u>	<u>10</u>
Other comprehensive income	6(20)				
Items that will not be reclassified to profit or loss					
Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income		(2,677)	-	(9,094)	(1)
Items that may be reclassified subsequently to profit or loss					
Exchange differences resulting from translating the financial statements of foreign operations		<u>491</u>	<u>-</u>	<u>454</u>	<u>-</u>
Other comprehensive income net of tax		<u>(2,186)</u>	<u>-</u>	<u>(8,640)</u>	<u>(1)</u>
Total comprehensive income		<u>\$ 39,596</u>	<u>5</u>	<u>\$ 113,007</u>	<u>9</u>
Net income (loss) for the periods attributable to :					
Owners of the parent		<u>\$ 41,782</u>		<u>\$ 121,647</u>	
Comprehensive income (loss) for the periods attributable to :					
Owners of the parent		<u>\$ 39,596</u>		<u>\$ 113,007</u>	
Earnings Per Share (NT\$)					
Basic Earnings Per Share					
Net income	6(22)	<u>\$ 1.38</u>		<u>\$ 4.05</u>	
Diluted Earnings Per Share					
Net income	6(22)	<u>\$ 1.37</u>		<u>\$ 3.98</u>	

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

Chairman : Cheng David

President : Jun-Jie Chen, Ken Li

Chief Financial Officer : Qin-Ya Su

English Translation of Financial Statements Originally Issued in Chinese
RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2023 and 2022
(Amount in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent										Treasury shares	Total equity
	Share capital			Capital surplus	Retained earnings			Other equity				
	Common stock	Capital collected in advance	Stock to be cancelled		Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income	Unearned employee remuneration		
Balance as of January 1, 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 year	-	-	-	-	-	-	121,647	-	-	-	-	121,647
Other comprehensive income for the year	-	-	-	-	-	-	-	454	(9,094)	-	-	(8,640)
Total comprehensive income	-	-	-	-	-	-	121,647	454	(9,094)	-	-	113,007
Share-based payment transactions	(40)	(1,084)	(140)	1,987	-	-	-	-	-	15,935	21,633	38,291
Balance as of December 31, 2022	<u>\$ 307,791</u>	<u>\$ -</u>	<u>\$ (140)</u>	<u>\$ 410,425</u>	<u>\$ 162,722</u>	<u>\$ 891</u>	<u>\$ 659,792</u>	<u>\$ (436)</u>	<u>\$ (12,936)</u>	<u>\$ (16,649)</u>	<u>\$ (21,130)</u>	<u>\$ 1,490,330</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 year	-	-	-	-	-	-	41,782	-	-	-	-	41,782
Other comprehensive income for the year	-	-	-	-	-	-	-	491	(2,677)	-	-	(2,186)
Total comprehensive income	-	-	-	-	-	-	41,782	491	(2,677)	-	-	39,596
Share-based payment transactions	(476)	-	(875)	(17,262)	-	-	-	-	-	14,179	-	(4,434)
Balance as of December 31, 2023	<u>\$ 307,315</u>	<u>\$ -</u>	<u>\$ (1,015)</u>	<u>\$ 393,163</u>	<u>\$ 174,887</u>	<u>\$ 13,373</u>	<u>\$ 554,555</u>	<u>\$ 55</u>	<u>\$ (15,613)</u>	<u>\$ (2,470)</u>	<u>\$ (21,130)</u>	<u>\$ 1,403,120</u>

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

Chairman : Cheng David

President : Jun-Jie Chen, Ken Li

Chief Financial Officer : Qin-Ya Su

English Translation of Financial Statements Originally Issued in Chinese

RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2023 and 2022

(Amount in thousands of New Taiwan Dollars)

Description	2023	2022
Cash flows from operating activities:		
Net income before income tax	\$ 38,569	\$ 126,846
Adjustments for:		
Profit or loss items:		
Depreciation	15,792	19,981
Amortization	52,283	51,965
Expected credit losses	15	2,166
Net (gains)/losses on financial assets and liabilities at fair value through profit or loss	(2,184)	36,049
Interest expenses	204	184
Interest income	(5,731)	(3,548)
Dividend income	(10,547)	(6,962)
Compensation cost of share-based payments	(5,937)	24,715
Share of loss of associates and joint ventures accounted for using the equity method	1,482	1,105
Unrealized profit from sales	(390)	773
Changes in assets and liabilities relating to operating activities:		
Trade receivables	24,221	(3,978)
Trade receivables from related parties	854	(259)
Other receivables	829	22,115
Inventories	73,444	(206,101)
Prepayments	(976)	8,038
Other current assets	592	557
Cost to fulfill a contract	3,767	5,598
Contract liabilities	(138,368)	137,873
Trade payables	(28,495)	22,880
Other payables	(30,997)	(8,353)
Other current liabilities	(85)	(54)
Cash generated from operating activities	<u>(11,631)</u>	<u>231,590</u>
Interest received	5,717	3,489
Dividend received	10,547	6,962
Interest paid	(204)	(184)
Income tax paid	<u>(4,103)</u>	<u>(23,369)</u>
Net cash provided by operating activities	<u>326</u>	<u>218,488</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	(769)	(6,809)
Increase in refundable deposits	(2)	(126)
Decrease in refundable deposits	84	30
Financial assets measured at amortized cost	(3,069)	-
Acquisition of intangible assets	(20,598)	(54,007)
Decrease in other non-current assets	-	25
Net cash used in investing activities	<u>(24,354)</u>	<u>(105,832)</u>
Cash flows from financing activities:		
Cash payment for principal portion of lease liabilities	(5,313)	(7,423)
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>(127,685)</u>	<u>(141,047)</u>
Effect of changes in exchange rate on cash and cash equivalents	<u>615</u>	<u>92</u>
Net increase (decrease) in cash and cash equivalents	(151,098)	(28,299)
Cash and cash equivalents at the beginning of the period	<u>586,925</u>	<u>615,224</u>
Cash and cash equivalents at the end of the period	<u>\$ 435,827</u>	<u>\$ 586,925</u>

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

Chairman : Cheng David

President : Jun-Jie Chen, Ken Li

Chief Financial Officer : Qin-Ya Su

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. History 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 of 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 February 7, 2024.

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 IFRS 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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

The amendments add seller-lessees 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 and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2024 and have no material impact on the Group.

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

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

equity holders in the associate or joint venture. IFRS 10 requires full profit or loss recognition on the loss of control of a subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitutes a business as defined in IFRS 3 “Business Combinations” (“IFRS 3”) between an investor and its associate or joint venture is recognized in full.

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 CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

4. Summary of Significant Accounting Policies

(1) Statement of Compliance

The Group's consolidated financial statements of 2023 and 2022 have been prepared in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by FSC.

(2) Basis of Preparation

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

(3) Basis of Consolidation

Preparation principles 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.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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 businesses	Percentage of ownership	
			December 31, 2023	December 31, 2022
The Company	Han Tang Co., Ltd.	General investment	100%	100%
The Company	Rafael Microelectronics Korea	Promote sales of RF IC products	100%	100%
Han Tang Co., Ltd.	HONG YU CO., LTD.	General investment	100%	100%
HONG YU CO., LTD.	ShenZhen Rafael Microsystems, Inc.	Technical consultation and services of RF IC products	100%	100%
ShenZhen Rafael Microsystems, Inc.	Rafael Semiconductors, Inc. (Note)	Design and sell RF IC products	100%	100%

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

(4) Foreign currency transactions

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

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

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

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

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

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NTD at the closing rate of exchange prevailing at the reporting date, and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

of the exchange differences related to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of a subsidiary that includes a foreign operation that results in a loss of control or the partial disposal of interest in an associate or joint agreement that includes a foreign operation, the partial equity retained which is the financial assets including a foreign operation shall be considered as disposal.

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

(6) Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

- A. The Group expects to settle the liability in its normal operating cycle;
- B. The Group holds the liability primarily for the purpose of trading;
- C. The Group expects the liability is due to be settled within twelve months after the reporting period;
- D. The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

All other liabilities are classified as non-current.

(7) Cash and cash equivalents

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

(8) Financial instruments

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

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

A. Financial instruments: recognition and measurement

The Group accounts for regular way purchase or sale of financial assets using trade date accounting.

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

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

Financial assets measured at amortized cost

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

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

Financial asset measured at fair value through other comprehensive income

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

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

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

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- (c) Interest revenue is recognized in profit or loss and calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

Financial asset measured at fair value through profit or loss

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

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

B. Impairment of financial assets

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

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

- (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) the time value of money; and

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

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

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

C. Derecognition of financial assets

A financial asset is derecognized when:

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

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

D. Financial liabilities and equity

Classification between liabilities or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

E. Offsetting of financial instruments

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

(9) Fair value measurement

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

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

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

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

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

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(10) Inventories

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

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

Raw materials: actual purchase cost on weighted average method.

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

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

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

(11) Investments accounted for using the equity method

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

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

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

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

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

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(12) Property, plant and equipment

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

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

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

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

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each fiscal year end and adjusted prospectively, if appropriate, and are treated as changes in accounting estimates.

(13) Leases

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- A. the right to obtain substantially all of the economic benefits from the use of the identified asset, and
- B. the right to direct the use of the identified asset.

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

The Group as a lessee

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

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

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

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

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

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

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

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

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

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

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

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

(14) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets which fail to meet the recognition criteria are not capitalized and the expenditures are reflected in profit or loss in the period incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

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

An intangible asset with an indefinite useful life is not amortized, but is tested for impairment annually, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

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

	Patents	Software	Photo Masks
Useful Life	Finite	Finite	Finite
Amortization Method	5 years on straight-line basis	2-3 years on straight-line basis	3 years on straight-line basis
Sources	Externally acquired	Externally acquired	Externally acquired

(15) Impairment of non-financial assets

The Group assesses whether there is any indication that an asset within the scope of IAS 36 "Impairment of Assets" may be impaired at the end of each reporting period. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the recoverable amount of an individual asset or a CGU. Where the carrying amount

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of an asset or a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An asset's recoverable amount is the higher of an asset's or a CGU's fair value less costs of disposal and its value in use.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

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

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

(16) Treasury shares

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

(17) Revenue recognition

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

Sale of goods

The Group manufactures and sells merchandise. Sales are recognized when underlying goods have been shipped and customers have obtained the control (i.e. the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits from the

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goods). The Group's main product is radio frequency integrated circuit chips and revenue is recognized based on the consideration stated in the contract.

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

The credit term of the Group's sale of goods is 30 days to 90 days. The Group recognizes trade receivables, when, for most of the contracts, the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional. The Group usually collects the payments shortly and there is no significant financing component to the contract. For some of contracts, part of the consideration is received from customers before transferring promised goods to customers, and the Group has the obligation to provide the goods subsequently; accordingly, these amounts are recognized as contract liabilities.

Rendering of services

The services the Group renders are primarily the consign design services, and the revenue is recognized based on the stage of completion of the contracts.

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

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

(18) Post-employment benefits

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

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

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

(19) Share-based payment transactions

Equity-settled share-based payment transactions

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

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

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition. The Group shall recognize the services received in expense irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

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

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

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

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

Cash-settled share-based payment transactions

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

(20) Income taxes

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

Current income tax

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

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

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the balance sheet.

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is not recognized in profit or loss but rather in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed and recognized at each reporting date.

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

5. Critical Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses,

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assets, liabilities and the disclosure of contingent liabilities at the end of the reporting period. However, the uncertainty of these critical assumptions and estimates may result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that would have a significant risk for a material adjustment to the carrying amounts of assets or liabilities within the next fiscal year are discussed below:

Estimates and assumptions

A. Inventories

The estimates of net realizable value of inventories take into consideration that inventories may be damaged, become wholly or partially obsolete, or their selling prices have declined. The estimates are based on the most reliable evidence available at the time the estimates are made. Please refer to Note 6(6) for details.

B. Income tax

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

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6(21) for details on the deferred tax assets the Group has not recognized as of December 31, 2023.

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6. Contents of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2023	December 31, 2022
Cash on hand	\$816	\$815
Checking and savings accounts	182,511	208,610
Time deposits	252,500	377,500
Total	<u>\$435,827</u>	<u>\$586,925</u>

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

	December 31, 2023	December 31, 2022
Financial assets mandatorily measured at fair value through profit or loss:		
Listed company stocks	<u>\$339,452</u>	<u>\$337,268</u>

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

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

	December 31, 2023	December 31, 2022
Equity instrument investments at fair value through other comprehensive income – non-current:		
Unlisted company stocks	<u>\$3,529</u>	<u>\$6,206</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

	December 31, 2023	December 31, 2022
Time deposits	<u>\$17,769</u>	<u>\$14,700</u>

(5) Trade receivables

	December 31, 2023	December 31, 2022
Trade receivables	\$88,754	\$112,975
Less: allowance for doubtful debts	<u>(21,882)</u>	<u>(21,867)</u>
Subtotal	<u>66,872</u>	<u>91,108</u>
Trade receivables from related parties	-	854

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Less: allowance for doubtful debts	-	-
Subtotal	-	854
Total	<u>\$66,872</u>	<u>\$91,962</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\$88,754 thousand and NT\$113,829 thousand as of December 31, 2023 and December 31, 2022, respectively. Please refer to Note 6(16) for more details on impairment of trade receivables for the years ended December 31, 2023 and 2022, and Note 12 for more details on credit risk management.

(6) Inventories

	December 31, 2023	December 31, 2022
Raw materials	\$123,781	\$120,776
Work in process	127,466	148,469
Finished goods	150,588	206,034
Total	<u>\$401,835</u>	<u>\$475,279</u>

The cost of inventories recognized in expenses amounted to NT\$659,602 thousand and NT\$776,172 thousand, including the write-down of inventories of NT\$(58,690) thousand and NT\$(14,413) thousand for the year of 2023 and 2022, respectively.

The aforementioned inventories were not pledged.

(7) Prepayments

	December 31, 2023	December 31, 2022
Inventory - prepaid	\$1,584	\$2,298
Input tax	1,309	837
Others	2,069	851
Total	<u>\$4,962</u>	<u>\$3,986</u>

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

(8) Investments accounted for using the equity method

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

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Investees	December 31, 2023		December 31, 2022	
	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership
Investments in jointly controlled entities:				
Aluksen Hongxin Technology Co., Ltd.	\$6,239	49%	\$7,482	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:

	2023	2022
Net loss from continuing operations	\$(1,482)	\$(1,105)
Other comprehensive income	-	-
Total comprehensive income	\$(1,482)	\$(1,105)

The aforementioned investments in associates and joint ventures had no contingent liabilities or capital commitments nor pledged as of December 31, 2023 and 2022.

(9) Property, plant and equipment

	December 31, 2023		December 31, 2022			
Owner-occupied property, plant and equipment	\$212,244		\$221,728			
Cost:	Land	Buildings and facilities	Testing equipment	Office equipment	Transportation equipment	Total
As of January 1, 2023	\$ 128,490	\$ 84,968	\$ 36,344	\$ 8,035	\$ 2,500	\$ 260,337
Additions	-	-	53	716	-	769
Disposals	-	-	(10,862)	(1,023)	-	(11,885)
Exchange differences	-	-	(53)	(48)	-	(101)
As of December 31, 2023	\$ 128,490	\$ 84,968	\$ 25,482	\$ 7,680	\$ 2,500	\$ 249,120
As of January 1, 2022	\$ 128,490	\$ 84,968	\$ 31,414	\$ 9,859	\$ 2,500	\$ 257,231
Additions	-	-	6,167	1,701	-	7,868
Disposals	-	-	(1,237)	(3,564)	-	(4,801)
Exchange differences	-	-	-	39	-	39
As of December 31, 2022	\$ 128,490	\$ 84,968	\$ 36,344	\$ 8,035	\$ 2,500	\$ 260,337
Depreciation and impairment:						
As of January 1, 2023	\$ -	\$ 11,359	\$ 20,418	\$ 4,957	\$ 1,875	\$ 38,609
Depreciation	-	1,700	6,014	2,008	500	10,222
Disposals	-	-	(10,862)	(1,023)	-	(11,885)
Exchange differences	-	-	(26)	(44)	-	(70)
As of December 31, 2023	\$ -	\$ 13,059	\$ 15,544	\$ 5,898	\$ 2,375	\$ 36,876
As of January 1, 2022	\$ -	\$ 9,659	\$ 14,278	\$ 5,764	\$ 1,375	\$ 31,076

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Depreciation	-	1,700	7,379	2,733	500	12,312
Disposals	-	-	(1,237)	(3,564)	-	(4,801)
Exchange differences	-	-	(2)	24	-	22
As of December 31, 2022	\$ -	\$ 11,359	\$ 20,418	\$ 4,957	\$ 1,875	\$ 38,609
Net carrying amount as of:						
December 31, 2023	\$ 128,490	\$ 71,909	\$ 9,938	\$ 1,782	\$ 125	\$ 212,244
December 31, 2022	\$ 128,490	\$ 73,609	\$ 15,926	\$ 3,078	\$ 625	\$ 221,728

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	187	19,527	884	20,598
Derecognized upon retirement	(6,216)	(17,521)	(15,060)	(38,797)
As of December 31, 2023	\$4,703	\$45,756	\$103,130	\$153,589
As of January 1, 2022	\$9,474	\$101,960	\$89,632	\$201,066
Additions-acquired separately	1,258	25,075	27,674	54,007
Derecognized upon retirement	-	(83,285)	-	(83,285)
As of December 31, 2022	\$10,732	\$43,750	\$117,306	\$171,788
Amortization and impairment:	Patents	Software	Photo Masks	Total
As of January 1, 2023	\$7,980	\$20,188	\$57,655	\$85,823
Amortization	1,085	13,828	37,370	52,283
Derecognized upon retirement	(6,216)	(17,521)	(15,060)	(38,797)
As of December 31, 2023	\$2,849	\$16,495	\$79,965	\$99,309
As of January 1, 2022	\$6,763	\$89,896	\$20,484	\$117,143
Amortization	1,217	13,577	37,171	51,965
Derecognized upon retirement	-	(83,285)	-	(83,285)
As of December 31, 2022	\$7,980	\$20,188	\$57,655	\$85,823
Net carrying amount as of:				
December 31, 2023	\$1,854	\$29,261	\$23,165	\$54,280
December 31, 2022	\$2,752	\$23,562	\$59,651	\$85,965

Amortization expenses of intangible assets were as follows:

	2023	2022
R&D Expenses	\$52,283	\$51,965

(11) Other non-current assets

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

(12) Post-employment benefits plans

Defined contribution plan

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

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

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

Pension expenses under the defined contribution plan were NT\$7,194 thousand and NT\$7,040 thousand for the year of 2023 and 2022, respectively.

(13) Equity

A. Share capital

The Company's authorized capital as of December 31, 2023 and 2022 was NT\$500,000 thousand, divided into 50,000 thousand shares (including 50 thousand shares reserved for exercise of employee stock options), each at a par value of NT\$10. The Company's issued capital was NT\$307,315 thousand and NT\$307,791 thousand divided into 30,732 thousand shares and 30,779 thousand shares, each at a par value of NT\$10, as of December 31, 2023 and 2022, respectively. 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.

The Company has recalled 135 thousand shares of issued restricted stocks for employees for the year ended December 31, 2023. The registration process has not been completed for 102 thousand shares out of the aforementioned shares as of December 31, 2023, and therefore NT\$1,015 thousand were classified as stock to be cancelled, while the registration

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for cancellation was completed for the rest of the aforementioned shares.

The Company has recalled 66 thousand shares of issued restricted stocks for employees for the year ended December 31, 2022. The registration process has not been completed for 14 thousand shares out of the aforementioned shares as of December 31, 2022, and therefore NT\$140 thousand were classified as stock to be cancelled, while the registration for cancellation was 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

	December 31, 2023	December 31, 2022
Additional paid-in capital	\$374,203	\$349,994
Treasury shares transactions	4,743	4,743
Employee stock options	-	2,174
Restricted stocks for employees	6,705	48,175
Others	7,512	5,339
Total	<u>\$393,163</u>	<u>\$410,425</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

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

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

The Company transferred 172 thousand treasury shares to employees in 2022.

D. Retained earnings and dividend policy

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

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.

When distributing distributable earnings, the Company shall set aside to special reserve, an amount equal to the difference between "other net deductions from shareholders' equity" and the amount already set aside according to the requirements for the adoption for the first time of IFRS'. For any subsequent reversal of other net deductions from shareholders' equity, the corresponding amount of special reserve reversed may be distributed.

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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 special resolutions to distribute cash dividends for common stock at NT\$4 and NT\$5 per share on March 22, 2023 and March 9, 2022, respectively.

Note: The Board of Directors adopted special resolutions to distribute cash dividends for common stock at NT\$4 and NT\$5 per share on March 22, 2023 and March 9, 2022, respectively.

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 fair value of option is determined on the grant date based on the Binominal Option Pricing Model, with parameters and assumptions in consideration of the terms and conditions of the stock option plans.

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:

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

	For the years ended December 31			
	2023		2022	
Stock options	Options (thousand units)	Weighted average exercise price (NT\$)	Options (thousand units)	Weighted average exercise price (NT\$)
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 the years ended December 31, 2022, 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 December 31, 2023 and 2022 is as follows:

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

	<u>Range of exercise price</u>	<u>Weighted average remaining years</u>
December 31, 2023		
Outstanding stock options	-	-
December 31, 2022		
Outstanding stock options	NT\$129.9	0.583

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 according to the trust contracts.

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- (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 December 31, 2023 was as follows:

Date of grant	Shares issued (thousand)	Exercise price (NT\$)	Fair value per unit (NT\$)	Restricted shares as of December 31, 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	-
May 5, 2021	30	\$-	\$146.5	30
August 11, 2021	38	\$-	\$227.5	24

The Group reversed NT\$9,684 thousand and recognized NT\$15,963 thousand as compensation expense for the years ended December 31, 2023 and 2022, respectively. NT\$6,705 thousand and NT\$48,175 thousand were recorded as capital surplus-restricted stocks, and NT\$2,470 thousand and NT\$16,649 thousand as unearned employee compensation as of December 31, 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.

D. Stock appreciation right plan for employees of the Company

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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 December 31, 2023, the pricing assumptions used were as below:

	<u>Stock appreciation right plan for employees</u>
Share price on measurement date (per share)	NT\$159.5
Expected volatility	39.91%
Expected life	0.33Years
Expected dividend yield	2.94%
Risk free interest rate	1.07%

Considering failure to fulfill the vesting condition, the Group reversed the compensation cost of NT\$1,503 thousand for the year ended December 31, 2023. As of December 31, 2023, the liabilities for stock appreciation right recognized were NT\$0, and other receivables recognized were NT\$0, of which total embedded value of NT\$0 from fulfilling the vesting condition.

The Group recognized NT\$5,315 thousand as the compensation costs for the year ended December 31, 2022. The liabilities for stock appreciation right recognized were NT\$5,315 thousand, which were classified under other payables and long-term payables amounted to NT\$2,698 thousand and NT\$2,617 thousand as of December 31, 2022, respectively. The total intrinsic value of vested rights was nil.

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

Restricted stocks for employees	<u>For the years ended December 31</u>
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	<u>2023</u>	<u>2022</u>
Employees treasury shares plan	\$ (9,684)	\$15,963
Stock appreciation right plan	5,250	3,437
Total	<u>(1,503)</u>	<u>5,315</u>
	<u>\$ (5,937)</u>	<u>\$24,715</u>

The Company did not cancel or modify any share-based payment plans for the years ended December 31, 2023 and 2022.

(15) Operating revenue

Information of the Group's revenue from contracts with customers for the years ended December 31, 2023 and 2022 is as follows:

A. Disaggregation of revenue

	<u>For the years ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Sale of goods	\$915,655	\$1,255,900
Rendering of services	80,365	47,236
Total	<u>\$996,020</u>	<u>\$1,303,136</u>
	<u>For the years ended December 31</u>	
Revenue recognition point:	<u>2023</u>	<u>2022</u>
At a point in time	\$915,655	\$1,255,900
Satisfied the performance obligation over time	80,365	47,236
Total	<u>\$996,020</u>	<u>\$1,303,136</u>

B. Contract balances

Contract liabilities – current

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>January 1, 2022</u>
Sale of goods	\$5,100	\$132,198	\$5,489
Rendering of services	3,025	14,295	3,131
Total	<u>\$8,125</u>	<u>\$146,493</u>	<u>\$8,620</u>

The significant changes in the Group's balances of contract liabilities for the years ended December 31, 2023 and 2022 are as follows:

For the years ended
December 31

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	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)	2,372	143,362

C. Transaction price allocated to unsatisfied performance obligations

As of December 31, 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\$26,511 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 17 months.

As of December 31, 2022, no disclosure of the unsatisfied performance obligations was required as the Group's contract terms with customers regarding the sales of goods were all less than one year. Besides, the total of transaction price allocated to unsatisfied performance obligations regarding rendering of service were NT\$57,144 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 5 to 12 months.

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

	December 31, 2023	December 31, 2022
Cost to fulfill a contract - current	\$2,574	\$6,341

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\$53,506 thousand and NT\$54,656 thousand amortization were recorded as operating costs for the years ended December 31, 2023 and 2022.

(16) Expected credit losses

	For the years ended December 31	
	2023	2022
Operating expense- Expected credit losses		
Trade receivables	\$15	\$2,166

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

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The Group measures the loss allowance of its trade receivables at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance as of December 31, 2023 and 2022 is 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:

December 31, 2023	Neither past due	Past due					Total
		< 30 days	31-60 days	61-90 days	91-120 days	> 121 days	
Group 1							
Gross carrying amount	\$66,725	\$-	\$163	\$-	\$-	\$-	\$66,888
Loss ratio	0%	5%	10%	30%	70%	100%	
Lifetime expected credit losses	-	-	(16)	-	-	-	(16)
Total	\$66,725	\$-	\$147	\$-	\$-	\$-	\$66,872
	Neither past due	Past due					Total
Group 2		< 120 days	121-150 days	151-180 days	181-270 days	> 271 days	
Gross carrying amount	\$-	\$-	\$-	\$-	\$-	\$21,866	\$21,866
Loss ratio	0%	0%	5%	10%	30%	70%~100%	
Lifetime expected credit losses	-	-	-	-	-	(21,866)	(21,866)
Subtotal	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Carrying amount							\$66,872
December 31, 2022	Neither past due	Past due					Total
Group 1		< 30 days	31-60 days	61-90 days	91-120 days	> 121 days	
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
	Neither past due	Past due					Total
Group 2		< 120 days	121-150 days	151-180 days	181-270 days	> 271 days	
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

The movements in the provision for impairment of trade receivables for the years ended December 31, 2023 and 2022 are as follows:

	Trade receivables
As of January 1, 2023	\$21,867
Allowance for the current period	15
As of December 31, 2023	\$21,882
As of January 1, 2022	\$19,701

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Allowance for the current period	2,166
As of December 31, 2022	<u>\$21,867</u>

(17) Leases

The Group as lessee

The Group leases various assets such as buildings and office equipment with lease terms of 1 to 3 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

	December 31, 2023	December 31, 2022
Buildings and facilities	<u>\$6,478</u>	<u>\$7,156</u>

For the years ended December 31, 2023 and 2022, the additions to right-of-use assets of the Group amounted to NT\$4,880 thousand and NT\$5,273 thousand, respectively.

(b) Lease liabilities

	December 31, 2023	December 31, 2022
Lease liabilities	<u>\$6,552</u>	<u>\$7,032</u>
Current	\$3,959	\$3,979
Non-current	<u>2,593</u>	<u>3,053</u>
Total	<u>\$6,552</u>	<u>\$7,032</u>

Please refer to Note 6(19)D for the interest expenses on lease liabilities recognized, and Note 12(5) for the maturity analysis of lease liabilities for the years ended December 31, 2023 and 2022.

B. Amounts reported on the Statement of Comprehensive Income

Depreciation charge for right-of-use assets

	For the years ended December 31	
	2023	2022
Buildings and facilities	<u>\$5,570</u>	<u>\$7,669</u>

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C. Income and costs relating to leasing activities

	For the years ended December 31	
	2023	2022
Expense relating to short-term leases	\$540	\$1,421
Expense relating to leases of low-value assets	50	73
Total	\$590	\$1,494

D. Cash outflow relating to leasing activities

For the years ended December 31, 2023 and 2022, the Group's total cash outflows for leases amounted to NT\$6,107 thousand and NT\$9,101 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 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	For the years ended December 31					
	2023			2022		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Payroll	\$-	\$161,685	\$161,685	\$-	\$214,201	\$214,201
Labor/Health insurance	-	13,298	13,298	-	13,526	13,526
Pension	-	7,194	7,194	-	7,040	7,040
Meals	-	2,710	2,710	-	2,882	2,882
Others	-	2,095	2,095	-	6,060	6,060
Depreciation	-	15,792	15,792	-	19,981	19,981
Amortization	-	52,283	52,283	-	51,965	51,965

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

The Company accrued NT\$10,000 thousand and NT\$2,010 thousand as employees' compensation and remuneration to directors based on 2023 profit. The Company accrued NT\$23,000 thousand and NT\$6,000 thousand as employees' compensation and remuneration to directors based on 2022 profit. The employees' compensation and remuneration to directors were recognized as payroll expenses.

A resolution was adopted in a meeting of the Board of Directors held on February 7, 2024 to distribute NT\$10,000 thousand and NT\$2,010 thousand in cash as 2023 employees' compensation and remuneration to directors, respectively.

There was no material difference between the actual distribution of employees' compensation and remuneration to directors and the amounts charged against earnings in 2022.

(19) Non-operating incomes and expenses

A. Interest income

	<u>For the years ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Financial assets measured at amortized cost	<u>\$5,731</u>	<u>\$3,548</u>

B. Other income

	<u>For the years ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Dividend income	\$10,547	\$6,962
Other income-others	155	1,316
Total	<u>\$10,702</u>	<u>\$8,278</u>

C. Other gains and losses

Net foreign exchange gains/(losses)	<u>For the years ended December 31</u>
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RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	2023	2022
Gains (losses) on financial assets at fair value through profit or loss	\$3,973	\$17,340
Others	2,184	(36,049)
Total	<u>(1,677)</u>	<u>(1,828)</u>
	<u>\$4,480</u>	<u>\$(20,537)</u>

D. Finance costs

	For the years ended December 31	
	2023	2022
Interest expense on lease liabilities	<u>\$204</u>	<u>\$184</u>

(20) Components of other comprehensive income

For the year ended December 31, 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	\$(2,677)	\$-	\$(2,677)	\$-	\$(2,677)
May be reclassified to profit or loss subsequently: Exchange differences resulting from translating the financial statements of foreign operations	491	-	491	-	491
Total	<u>\$(2,186)</u>	<u>\$-</u>	<u>\$(2,186)</u>	<u>\$-</u>	<u>\$(2,186)</u>

For the year ended December 31, 2022:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax income (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss: Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income	\$(9,094)	\$-	\$(9,094)	\$-	\$(9,094)
May be reclassified to profit or loss subsequently: Exchange differences resulting from translating the financial statements of foreign operations	454	-	454	-	454
Total	<u>\$(8,640)</u>	<u>\$-</u>	<u>\$(8,640)</u>	<u>\$-</u>	<u>\$(8,640)</u>

(21) Income tax

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

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

Income tax recognized in profit or loss

	For the years ended December 31	
	2023	2022
Current income tax expense:		
Current income tax	\$16,305	\$26,797
Tax expense of prior periods recognized in the period	(8,941)	(19,276)
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	(10,550)	(2,322)
Income tax expense	<u><u>\$(3,186)</u></u>	<u><u>\$5,199</u></u>

The reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates to the parent company is as follows:

	For the years ended December 31	
	2023	2022
Accounting profit before tax from continuing operations	<u>\$38,596</u>	<u>\$126,846</u>
Tax expense calculated at applicable rate to the parent company	\$7,720	\$25,369
Tax effect of revenues exempt from taxation	(2,168)	-
Tax effect of deferred tax assets/liabilities	145	(973)
Tax expense of prior periods recognized in the period	(8,941)	(19,276)
Others	58	79
Total income tax expense recognized in profit or loss	<u><u>\$(3,186)</u></u>	<u><u>\$5,199</u></u>

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

For year ended December 31, 2023	Beginning balance	Recognized in profit or loss	Ending balance
Temporary differences			
Allowance for inventory obsolescence	\$2,662	\$11,738	\$14,400
Unrealized foreign exchange losses	470	193	663
Unrealized foreign exchange gains	(370)	(241)	(611)
Unrealized stock appreciation right for employees	1,063	(1,063)	-
Unrealized profit from sales	154	(77)	77
Deferred tax income (expense)		<u>\$10,550</u>	
Net deferred tax assets	<u>\$3,979</u>		<u>\$14,529</u>
Reflected in balance sheet as follows:			
Deferred tax assets	<u>\$4,349</u>		<u>\$15,140</u>
Deferred tax liabilities	<u>\$(370)</u>		<u>\$(611)</u>

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

For year ended December 31, 2022	Beginning balance	Recognized in profit or loss	Ending balance
Temporary differences			
Allowance for inventory obsolescence	\$2,224	\$438	\$2,662
Unrealized foreign exchange losses	547	(77)	470
Unrealized foreign exchange gains	(157)	(213)	(370)
Unrealized allowance for financial assets valuation	(957)	957	-
Unrealized stock appreciation right for employees	-	1,063	1,063
Unrealized profit from sales	-	154	154
Deferred tax income (expense)		<u>\$2,322</u>	
Net deferred tax assets	<u>\$1,657</u>		<u>\$3,979</u>
Reflected in balance sheet as follows:			
Deferred tax assets	<u>\$2,771</u>		<u>\$4,349</u>
Deferred tax liabilities	<u>\$(1,114)</u>		<u>\$(370)</u>

Unrecognized deferred tax assets

The Group's unrecognized deferred tax assets were NT\$196 thousand and NT\$195 thousand as of December 31, 2023 and 2022, respectively.

Unrecognized deferred tax liabilities related investments in subsidiaries

The Group does not recognize the deferred tax liabilities of income tax payable on the undistributed earnings of foreign subsidiaries once the Group receives it. The Group has determined that the undistributed earnings of subsidiaries will not be distributed in the foreseeable future. The unrecognized deferred tax liabilities from taxable temporary differences were NT\$766 thousand and NT\$727 thousand as of December 31, 2023 and 2022, respectively.

Assessment of income tax returns

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

	For the years ended December 31	
	2023	2022
A. Basic earnings per share		
Net profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$41,782	\$121,647
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	30,359	30,011
Basic earnings per share (NT\$)	\$1.38	\$4.05
B. Diluted earnings per share		
Net profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$41,782	\$121,647
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	30,359	30,011
Effect of dilution:		
Employees' compensation (in thousands)	94	205
Employee stock options (in thousands)	9	19
Restricted stocks for employees (in thousands)	42	352
Weighted average number of ordinary shares outstanding after dilution (in thousands)	30,504	30,587
Diluted earnings per share (NT\$)	\$1.37	\$3.98

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

7. Related Party Transactions

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

Name and nature of relationship of 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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(1) Sales

	December 31, 2023	December 31, 2022
Joint venture of a subsidiary	<u>\$4,791</u>	<u>\$3,572</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

	December 31, 2023	December 31, 2022
Joint venture of a subsidiary	<u>\$6,532</u>	<u>\$-</u>

(3) Trade receivables from related parties, net

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

(4) Contract liabilities

	December 31, 2023	December 31, 2022
Aluksen Hongxin Technology Co., Ltd.	<u>\$981</u>	<u>\$-</u>

(5) Key management personnel compensation of the Group

	For the years ended December 31	
	2023	2022
Short-term employee benefits	\$27,103	\$39,772
Post-employment benefits	659	756
Share-based payment transactions	(2,416)	12,199
Total	<u>\$25,346</u>	<u>\$52,727</u>

8. Assets Pledged as Collateral

None

9. Contingencies and Off Balance Sheet Commitments

None

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

FLEXIUM INTERCONNECT, INC has purchased a total of 9,222 thousand shares of the company in the open market, and the delivery was completed on November 23, 2003. In addition, the company held an extraordinary meeting of shareholders on January 19, 2024 to re-elect 9 directors, and an extraordinary meeting was held after the meeting. The Board of Directors elected Mr. David Cheng as Chairman.

12. Others

(1) Categories of financial instruments

Financial assets

	December 31, 2023	December 31, 2022
Financial assets at fair value through profit or loss:		
Mandatorily measured at fair value through profit or loss	\$339,452	\$337,268
Financial assets at fair value through other comprehensive income	3,529	6,206
Financial assets measured at amortized cost (Note)	544,363	718,381
Total	<u>\$887,344</u>	<u>\$1,061,855</u>

Financial liabilities

	December 31, 2023	December 31, 2022
Financial liabilities at amortized cost:		
Trade payables	\$155,630	\$216,625
Lease liabilities	6,552	7,032
Total	<u>\$162,182</u>	<u>\$223,657</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.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The Group 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 its operating activities (when revenues or expenses are denominated in a different currency from the Group's functional currency) and the net investments in foreign operations.

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

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

When NTD appreciates or depreciates against USD by 1%, the profit for the year of 2023 and 2022 would decrease or increase by NT\$804 thousand and NT\$1,259 thousand, respectively.

Interest rate risk

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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 should review and approve all investments in preferred shares and equity securities according to level of authority.

When the price of the listed preferred shares and equity securities measured at fair value through profit or loss rises or drops by 1%, the Group's profit for the years of 2023 and 2022 may increase or decrease by NT\$3,395 thousand and NT\$3,373 thousand, respectively.

Please refer to Note 12(8) for information relating to the sensitivity analysis of other equity instruments in level 3 of the fair value hierarchy.

(4) Credit risk management

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of December 31, 2023 and 2022, receivables from top ten customers represented 64.55% and 64.64% 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, there is no material credit risk for these counterparties.

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

Level of credit risk	Indicator	Measurement method for expected credit losses	Gross carrying amount	
			December 31, 2023	December 31, 2022
Simplified method (Note)	Not applicable	Lifetime expected credit losses	\$88,754	\$113,829

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

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

(5) Liquidity risk management

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

Non-derivative financial liabilities

	Within 1 year	2-3 years	4-5 years	Total
As of December 31, 2023				
Trade Payables	\$155,630	\$-	\$-	\$155,630
Lease liabilities	4,108	2,622	-	6,730
As of December 31, 2022				
Trade payables	\$214,008	\$ 2,617	\$ -	\$216,625

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Lease liabilities	4,076	3,120	-	7,196
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(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 31, 2023:

	<u>Lease liabilities</u>
As of January 1, 2023	\$7,032
Cash flows	(5,313)
Non-cash flows	
Addition of the period	4,880
Foreign exchange movement	<u>(47)</u>
As of December 31, 2023	<u><u>\$6,552</u></u>

Reconciliation of liabilities for the year ended December 31, 2022:

	<u>Lease liabilities</u>
As of January 1, 2022	\$9,622
Cash flows	(7,423)
Non-cash flows	
Addition of the period	5,273
Lease modifications	(371)
Foreign exchange movement	<u>(69)</u>
As of December 31, 2022	<u><u>\$7,032</u></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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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 fair value measurement hierarchy for financial instruments of the Group.

(8) Fair value hierarchy

A. Definition of fair value hierarchy

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

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

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

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

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

B. 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 December 31, 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	<u>\$339,452</u>	<u>\$-</u>	<u>\$-</u>	<u>\$339,452</u>
Financial assets at fair value through other comprehensive income:				

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO 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	\$-	\$-	\$3,529	\$3,529
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

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 year of 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:

	<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)	(2,677)
As of December 31, 2023	\$3,529
	<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)	(9,094)
As of December 31, 2022	\$6,206

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Information on significant unobservable inputs of Level 3 of the fair value hierarchy

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

As of December 31, 2023:

Financial Assets:	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of interrelationship between inputs and fair value
Financial assets at fair value through other comprehensive income					
Stocks	Market approach and income approach	Lack of marketability and discount for minority interest	25%	The lower the marketability is, the lower the fair value estimate is	The increase/decrease of 10% in the lack of marketability and discount for minority interest could decrease/ increase the Group's equity by NT\$353 thousand

As of December 31, 2022:

Financial Assets:	Valuation technique	Significant unobservable inputs	Quantitative information	Interrelationship between inputs and fair value	Sensitivity analysis of interrelationship between inputs and fair value
Financial assets at fair value through other comprehensive income					
Stocks	Market approach and income approach	Lack of marketability and discount for minority interest	45%	The lower the marketability is, the lower the fair value estimate is	The increase/decrease of 10% in the lack of marketability and discount for minority interest could decrease/increase the Group's equity by NT\$621 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:

Financial assets	December 31, 2023		
	Foreign currency	Exchange rate	NT\$
Monetary item:			
USD	\$5,567	30.71	\$170,948
CNY	4,188	4.329	18,128
EUR	1,077	34.01	36,637
KRW	149,495	0.0238	3,558

Unit: thousands

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Financial liabilities

Monetary item:

USD	\$2,948	30.71	\$90,540
CNY	261	4.329	1,132
KRW	2,363	0.0238	56

Financial assets

Non-monetary item:

CNY	\$1,441	4.329	\$6,239
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December 31, 2022

Financial assets

Monetary item:

	Foreign currency	Exchange rate	NT\$
USD	\$7,967	30.70	\$244,587
CNY	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
CNY	69	4.409	304
KRW	4,924	0.0245	121

Financial assets

Non-monetary item:

CNY	\$1,697	4.409	\$7,482
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	2023	2022
	NT\$	NT\$
Foreign exchange gains (losses) for monetary financial assets and liabilities		
USD	\$2,672	\$15,960
CNY	30	86
EUR	1,271	1,294

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.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

13. Additional Disclosures

(1) Significant transactions information

- A. Financing provided to others as of December 31, 2023: None
- B. Endorsement/guarantee provided to others as of December 31, 2023: None
- C. Marketable securities held as of December 31, 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 December 31, 2023: None
- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital as of December 31, 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 December 31, 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 December 31, 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 December 31, 2023: None
- I. Financial instruments and derivative transactions: None.
- J. Others: The business relationships and significant transactions and amounts between the Company and subsidiaries, and among subsidiaries as of December 31, 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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

Information of major shareholders: Please refer to Attachment 5.

14. Segment Information

(1) General Information

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

(2) Geographical Information

A.Revenue from external customers

	For the years ended December 31	
	2023	2022
Taiwan	\$24,126	\$51,515
China	424,333	545,078
Hong Kong	302,892	405,244
Japan	154,492	234,500
Singapore	31,291	16,617
Korea	26,588	29,902
Others	32,298	20,280
Total	<u>\$996,020</u>	<u>\$1,303,136</u>

The revenue is classified by the locations of the customers.

B.Non-current assets:

	December 31, 2023	December 31, 2022
Taiwan	\$267,833	\$309,479

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

China	5,162	5,357
Korea	7	13
Total	<u>\$273,002</u>	<u>\$314,849</u>

(3) Major customers

Information regarding the sales to an individual customer accounting for at least 10% of operating revenue for the years ended December 31, 2023 and 2022 is listed below:

	For the years ended December 31	
	2023	2022
Client A	<u>\$207,570</u>	<u>\$244,187</u>
Client B	<u>120,936</u>	<u>(Note)</u>
Client C	<u>118,656</u>	<u>(Note)</u>
Client D	<u>(Note)</u>	<u>191,605</u>

Note: Sales did not exceed 10% of operating revenue.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of December 31, 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	82	\$5,316	0.00%	\$5,316	None
	Class B preferred share	Fubon Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss- current	1,952	116,925	0.29%	116,925	None
	Class C preferred share	Fubon Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss- current	2,543	139,879	0.76%	139,879	None
	Class B preferred share	China Development Financial Holding Corp.	-	Financial assets at fair value through profit or loss- current	4,830	34,148	0.26%	34,148	None
	Class B preferred share	CTBC Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss- current	727	43,184	0.22%	43,184	None
	Common stocks	BKS Tec Corp.	-	Financial assets at fair value through other comprehensive income - non-current	6,000	3,529	11.07%	3,529	None

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RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
THE BUSINESS RELATIONSHIP AND SIGNIFICANT TRANSACTIONS BETWEEN THE PARENT AND SUBSIDIARIES
For the year ended December 31, 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	\$28,316	Based on contract terms	2.84%
0		Rafael Microelectronics Korea	1	Consign service expenses	4,172	Based on contract terms	0.42%

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 CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEE (EXCLUDING INVESTEES IN MAINLAND CHINA)****For the year ended December 31, 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	\$21,712 (US\$707,000)	\$21,712 (US\$707,000)	707,000	100.00%	\$19,843	\$(597)	\$(597)	The Company's subsidiary
	Rafael Microelectronics Korea	Korea	Promote RF IC products	2,730 (US\$88,898)	2,730 (US\$88,898)	200,000	100.00%	3,507	139	139	The Company's subsidiary
Han Tang Co., Ltd	HONG YU CO., LTD.	Seychelles	General investing	21,635 (US\$704,500)	21,635 (US\$704,500)	704,500	100.00%	20,149	(598)	(598)	The Company's grandson company

Note 1: The amounts are converted at the exchange rates of December 31, 2023.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEE (EXCLUDING INVESTEES IN MAINLAND CHINA)****For the year ended December 31, 2023**

Attachment 4

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

Investee company in Mainland China	Main businesses	Paid-in capital (Note 5)	Investment method (Note 1)	Accumulated outflow of investment from Taiwan as of January 1, 2023	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2023	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	\$10,749 (US\$350,000)	Indirect investment through investing entity in a third region (Note 3)	\$10,749 (US\$350,000)	\$-	\$-	\$10,749 (US\$350,000)	\$882	100.00%	\$882 (Note 2(2)(b))	\$13,310	\$-
AluXsen Hongxin Technology Co., Ltd.	Design, development, sales, technical consultation and services for optical fiber products	10,686 (US\$347,952.05)	Indirect investment through investing entity in a third region (Note 3)	10,686 (US\$347,952.05)	-	-	10,686 (US\$347,952.05)	(3,025)	49.00%	(1,482) (Note 2(2)(c))	6,239	-
Rafael Semiconductors, Inc.	Design and sell RF IC products	3,896 (RMB900,000)	Indirect investment through investing entity in a third region (Note 4)	3,896 (RMB900,000)	-	-	3,896 (RMB900,000)	(2)	100.00%	(2) (Note 2(2)(b))	3,908	-

Accumulated investment in Mainland China as of December 31, 2022 (Note 5)	Investment amounts authorized by Investment Commission, MOEA (Note 5)	Upper limit on investment
\$25,734 (US\$837,952.05)	\$25,734 (US\$837,952.05)	\$856,590

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

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

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. invests these 2 companies at ShenZhen,China.

Note 4: 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 5: The amounts in foreign currency are converted at the exchange rates of December 31, 2023.

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RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
INFORMATION OF MAJOR SHAREHOLDERS
As of December 31, 2023

Attachment 5

Major Shareholder	Shares	Number of shares held	Ownership (%)
FLEXIUM INTERCONNECT, INC		9,221,976	30%

Remark: Below notes is for companies applying for the above information from Taiwan Depository & Clearing Corporation.

Note 1: The major shareholders information was from the data that the Company issued common shares (including treasury shares) and preference shares in dematerialised form which were registered and held by the shareholders above 5% on the last operating date of each quarter and was calculated by Taiwan Depository & Clearing Corporation. The share capital which was recorded on the financial statements may be different from the actual number of shares in dematerialised form due to the difference of calculation basis.

Note 2: If the aforementioned data contains shares which were kept at the trust by the shareholders, the data was disclosed as separate account fo client which was set by the trustee. As for the shareholder who reports share equity as a insider whose shareholding ratio reater than 10% in accordance with Securities and Exchange Act, the shareholding ratio including the self-owned shares and trusted shares, at the same time, persons who have power to decide how to allocate the trust assets. For the information of reported share equity of insider, please refer to Market Observation Post System.