

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

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

**FOR THE THREE MONTHS ENDED
MARCH 31, 2024 AND 2023**

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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.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Financial Statements

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English Translation of a Report Originally Issued in Chinese

Review Report of Independent Auditors

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

Introduction

We have reviewed the accompanying consolidated balance sheets of Rafael Microelectronics, Inc. and its subsidiaries as of March 31, 2024, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2024, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”). Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard No. 34, “Interim Financial Reporting” as endorsed and become effective by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Review Standards No. 2410, “Review of Financial Information Performed by the Independent Auditor of the Entity” of the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the auditing standards generally accepted in the Republic of China and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As explained in Note 4(3) and Note 6(7), the accompanying consolidated financial statements included the financial statements of non-significant subsidiaries, which statements reflected total assets amounting to NT\$28,262 thousand, constituting 2% of consolidated total assets as of March 31, 2024, total liabilities amounting to NT\$4,511 thousand, constituting 2% of consolidated total liabilities as of March 31, 2024, and total comprehensive income (loss) amounting to NT\$(8,882) thousand, constituting (31)% of consolidated total comprehensive income (loss) for the three-month periods ended March 31, 2024.

Qualified Conclusion

Based on our reviews, except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements and related information of non-significant subsidiaries and investee companies accounted for using the equity method been reviewed by independent auditors, that we might have become aware of had it not been for the situation described above, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Rafael Microelectronics, Inc. and its subsidiaries as of March 31, 2024, and their consolidated financial performance and cash flows for the three-month period ended March 31, 2024, in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and become effective by the Financial Supervisory Commission of the Republic of China.

Other Notes – Financial Statements from previous periods reviewed by other independent auditors

The financial statements for the three-month periods ended March 31, 2023 were reviewed by other independent auditors. In addition, a qualified conclusion was issued on May 3, 2023 because the financial statements of non-significant subsidiaries included in the consolidated financial statements and investee companies using the equity method were not reviewed by independent auditors.

Liao, A-Shen

Li, Tien-Yi

PricewaterhouseCoopers, Taiwan

May 3, 2024

English Translation of Financial Statements Originally Issued in Chinese
RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
 March 31, 2024, December 31, 2023, and March 31, 2023
 (Expressed in thousands of New Taiwan dollars)
 (The balance sheets as of March 31, 2024 and 2023 are reviewed, not audited)

| ASSETS | Notes | March 31, 2024 | % | December 31, 2023 | % | March 31, 2023 | % |
|---|---------|----------------|-----|-------------------|-----|----------------|-----|
| Current assets | | | | | | | |
| Cash and cash equivalents | 6(1) | \$ 181,443 | 11 | \$ 435,827 | 28 | \$ 519,846 | 30 |
| Financial assets at fair value through profit or loss-current | 6(2) | 342,537 | 21 | 339,452 | 21 | 352,685 | 20 |
| Financial assets measured at amortized cost-current | 6(4) | 270,264 | 17 | 17,769 | 1 | 14,700 | 1 |
| Trade receivables, net | 6(5) | 93,814 | 6 | 66,872 | 4 | 79,863 | 5 |
| Trade receivables from related parties, net | 6(5), 7 | 2,133 | - | - | - | - | - |
| Other receivables | | 22,220 | 1 | 23,741 | 2 | 21,405 | 1 |
| Inventories | 6(6) | 410,847 | 25 | 401,835 | 25 | 419,496 | 24 |
| Prepayments | | 8,187 | 1 | 4,962 | - | 7,249 | - |
| Other current assets | | - | - | - | - | 535 | - |
| Cost to fulfill a contract-current | 6(18) | 3,032 | - | 2,574 | - | 17,187 | 1 |
| Total current assets | | 1,334,477 | 82 | 1,293,032 | 81 | 1,432,966 | 82 |
| Non-current assets | | | | | | | |
| Financial assets at fair value through other comprehensive income-non-current | 6(3) | 3,610 | - | 3,529 | - | 5,332 | - |
| Investments accounted for using the equity method | 6(7) | 6,087 | 1 | 6,239 | - | 7,242 | 1 |
| Property, plant and equipment | 6(8) | 210,468 | 13 | 212,244 | 13 | 219,347 | 13 |
| Right-of-use assets | 6(9) | 5,609 | - | 6,478 | 1 | 5,345 | - |
| Intangible assets | 6(10) | 42,982 | 3 | 54,280 | 4 | 73,515 | 4 |
| Deferred tax assets | | 15,696 | 1 | 15,140 | 1 | 4,848 | - |
| Other non-current assets | | 2,724 | - | 2,724 | - | 2,746 | - |
| Total non-current assets | | 287,176 | 18 | 300,634 | 19 | 318,375 | 18 |
| Total assets | | \$ 1,621,653 | 100 | \$ 1,593,666 | 100 | \$ 1,751,341 | 100 |

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 31, 2024, December 31, 2023, and March 31, 2023

(Expressed in thousands of New Taiwan dollars)

(The balance sheets as of March 31, 2024 and 2023 are reviewed, not audited)

| LIABILITIES AND EQUITY | Notes | March 31, 2024 | % | December 31, 2023 | % | March 31, 2023 | % |
|--|--------------|---------------------|------------|---------------------|------------|---------------------|------------|
| Current liabilities | | | | | | | |
| Contract liabilities-current | 6(18), 7 | \$ 14,000 | 1 | \$ 8,125 | 1 | \$ 55,331 | 3 |
| Trade payables | | 77,848 | 5 | 73,676 | 5 | 68,331 | 4 |
| Other payables | 6(11), 6(13) | 66,440 | 4 | 81,954 | 5 | 203,986 | 12 |
| Current tax liabilities | | 25,132 | 2 | 19,106 | 1 | 22,147 | 1 |
| Lease liabilities-current | | 4,095 | - | 3,959 | - | 2,315 | - |
| Other current liabilities-others | | 456 | - | 522 | - | 625 | - |
| Total current liabilities | | <u>187,971</u> | <u>12</u> | <u>187,342</u> | <u>12</u> | <u>352,735</u> | <u>20</u> |
| Non-current liabilities | | | | | | | |
| Deferred tax liabilities | | 1,439 | - | 611 | - | 371 | - |
| Lease liabilities-non-current | | 1,600 | - | 2,593 | - | 2,678 | - |
| Long-term notes and accounts payable | 6(13) | - | - | - | - | 3,298 | - |
| Total non-current liabilities | | <u>3,039</u> | <u>-</u> | <u>3,204</u> | <u>-</u> | <u>6,347</u> | <u>-</u> |
| Total liabilities | | <u>191,010</u> | <u>12</u> | <u>190,546</u> | <u>12</u> | <u>359,082</u> | <u>20</u> |
| Equity attributable to owners of the parent | | | | | | | |
| Share capital | 6(14) | | | | | | |
| Common stock | | 307,291 | 19 | 307,315 | 19 | 307,651 | 18 |
| Stock to be cancelled | | (1,171) | - | (1,015) | - | (120) | - |
| Capital surplus | 6(15) | 390,706 | 23 | 393,163 | 24 | 407,815 | 23 |
| Retained earnings | 6(16) | | | | | | |
| Legal reserve | | 174,887 | 11 | 174,887 | 11 | 162,722 | 9 |
| Special reserve | | 13,373 | 1 | 13,373 | 1 | 891 | - |
| Unappropriated earnings | | 582,019 | 36 | 554,555 | 35 | 560,240 | 32 |
| Other equity | 6(17) | | | | | | |
| Other equity | | (15,332) | (1) | (18,028) | (1) | (25,810) | (1) |
| Treasury shares | 6(14) | (21,130) | (1) | (21,130) | (1) | (21,130) | (1) |
| Total equity | | <u>1,430,643</u> | <u>88</u> | <u>1,403,120</u> | <u>88</u> | <u>1,392,259</u> | <u>80</u> |
| Significant events after the balance sheet date | 11 | | | | | | |
| Total liabilities and equity | | <u>\$ 1,621,653</u> | <u>100</u> | <u>\$ 1,593,666</u> | <u>100</u> | <u>\$ 1,751,341</u> | <u>100</u> |

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

Chairman : David Cheng

President : Jun-Jie Chen

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 three months ended March 31, 2024 and 2023

(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)

(Reviewed, not audited)

| Description | Notes | Three Months Ended March 31 | | | |
|--|---------------------|-----------------------------|------|------------|------|
| | | 2024 | % | 2023 | % |
| Net sales | 6(18), 7 | \$ 244,826 | 100 | \$ 301,343 | 100 |
| Operating costs | 6(6), 6(18) | (143,276) | (58) | (192,211) | (64) |
| Gross profit | | 101,550 | 42 | 109,132 | 36 |
| Unrealized gain on sales | | (259) | - | (70) | - |
| Net gross profit | | 101,291 | 42 | 109,062 | 36 |
| Operating expenses | 6(13), 6(23), 6(24) | | | | |
| Selling expenses | | (10,854) | (5) | (8,960) | (3) |
| General and administrative expenses | | (16,883) | (7) | (10,570) | (4) |
| Research and development expenses | | (48,964) | (20) | (75,843) | (25) |
| Expected credit gains (losses) | 12(2) | (895) | - | 59 | - |
| Total operating expenses | | (77,596) | (32) | (95,314) | (32) |
| Operating income | | 23,695 | 10 | 13,748 | 4 |
| Non-operating income and expenses | | | | | |
| Interest income | 6(4), 6(19) | 1,463 | - | 984 | - |
| Other income | 6(20) | 1 | - | 2 | - |
| Other gains and losses | 6(2), 6(21) | 8,818 | 4 | 14,156 | 5 |
| Finance costs | 6(9), 6(22) | (51) | - | (36) | - |
| Share of profit/(loss) of associates and joint ventures accounted for using the equity method | 6(7) | (165) | - | (209) | - |
| Total non-operating income and expenses | | 10,066 | 4 | 14,897 | 5 |
| Net income before income tax | | 33,761 | 14 | 28,645 | 9 |
| Income tax expense | 6(25) | (6,297) | (3) | (5,825) | (2) |
| Net income | | 27,464 | 11 | 22,820 | 7 |
| Other comprehensive income | | | | | |
| Items that may not be reclassified subsequently to profit or loss | | | | | |
| Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income | | 81 | - | (874) | - |
| Items that may be reclassified subsequently to profit or loss | | | | | |
| Exchange differences resulting from translating the financial statements of foreign operations | | 873 | 1 | (61) | - |
| Other comprehensive income net of tax | | 954 | 1 | (935) | - |
| Total comprehensive income | | \$ 28,418 | 12 | \$ 21,885 | 7 |
| Net income (loss) for the periods attributable to : | | | | | |
| Owners of the parent | | \$ 27,464 | 11 | \$ 22,820 | 7 |
| Comprehensive income (loss) for the periods attributable to : | | | | | |
| Owners of the parent | | \$ 28,418 | 12 | \$ 21,885 | 7 |
| Earnings Per Share (in New Taiwan Dollars) | 6(26) | | | | |
| Basic Earnings Per Share | | \$ 0.90 | | \$ 0.76 | |
| Diluted Earnings Per Share | | \$ 0.90 | | \$ 0.75 | |

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

Chairman : David Cheng

President : Jun-Jie Chen

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 three months ended March 31, 2024 and 2023
(Expressed in thousands of New Taiwan dollar)
(Reviewed, not audited)

| | Equity attributable to owners of the parent | | | | | | | | | | | Treasury shares | Total equity |
|--|---|-------------------|-----------------------|-------------------|-------------------|------------------|------------------------|--|--|--------------------------------|--------------------|---------------------|--------------|
| | Notes | Share capital | | Capital surplus | Retained earnings | | | Other equity | | | | | |
| | | Common stock | 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 | | | |
| Three-month period ended March 31, 2023 | | | | | | | | | | | | | |
| 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 | |
| Profit for the three months ended March 31, 2023 | | - | - | - | - | - | 22,820 | - | - | - | - | 22,820 | |
| Other comprehensive income for the three months ended March 31, 2023 | 6(3), 6(17) | - | - | - | - | - | - | (61) | (874) | - | - | (935) | |
| Total comprehensive income | | - | - | - | - | - | 22,820 | (61) | (874) | - | - | 21,885 | |
| Appropriation and distribution of 2022 earnings | | | | | | | | | | | | | |
| Cash dividends | 6(16) | - | - | - | - | - | (122,372) | - | - | - | - | (122,372) | |
| Share-based payment transactions | 6(13), 6(14), 6(15) | (140) | 20 | (2,610) | - | - | - | - | - | 5,146 | - | 2,416 | |
| Balance as of March 31, 2023 | | <u>\$ 307,651</u> | <u>\$ (120)</u> | <u>\$ 407,815</u> | <u>\$ 162,722</u> | <u>\$ 891</u> | <u>\$ 560,240</u> | <u>\$ (497)</u> | <u>\$ (13,810)</u> | <u>\$ (11,503)</u> | <u>\$ (21,130)</u> | <u>\$ 1,392,259</u> | |
| Three-month period ended March 31, 2024 | | | | | | | | | | | | | |
| Balance as of January 1, 2024 | | \$ 307,315 | \$ (1,015) | \$ 393,163 | \$ 174,887 | \$ 13,373 | \$ 554,555 | \$ 55 | \$ (15,613) | \$ (2,470) | \$ (21,130) | \$ 1,403,120 | |
| Profit for the three months ended March 31, 2024 | | - | - | - | - | - | 27,464 | - | - | - | - | 27,464 | |
| Other comprehensive income for the three months ended March 31, 2024 | 6(3), 6(17) | - | - | - | - | - | - | 873 | 81 | - | - | 954 | |
| Total comprehensive income | | - | - | - | - | - | 27,464 | 873 | 81 | - | - | 28,418 | |
| Share-based payment transactions | 6(13), 6(14), 6(15) | (24) | (156) | (2,457) | - | - | - | - | - | 1,742 | - | (895) | |
| Balance as of March 31, 2024 | | <u>\$ 307,291</u> | <u>\$ (1,171)</u> | <u>\$ 390,706</u> | <u>\$ 174,887</u> | <u>\$ 13,373</u> | <u>\$ 582,019</u> | <u>\$ 928</u> | <u>\$ (15,532)</u> | <u>\$ (728)</u> | <u>\$ (21,130)</u> | <u>\$ 1,430,643</u> | |

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

Chairman : David Cheng

President : Jun-Jie Chen

Chief Financial Officer : Qin-Ya Su

RAFAEL MICROELECTRONICS, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2024 and 2023

(Expressed in thousands of New Taiwan dollars)

(Reviewed, not audited)

| Description | Notes | Three Months Ended March 31 | |
|---|----------------------|-----------------------------|------------|
| | | 2024 | 2023 |
| Cash flows from operating activities | | | |
| Net income before income tax | | \$ 33,761 | \$ 28,645 |
| Adjustments for: | | | |
| Profit or loss items | | | |
| Depreciation | 6(8), 6(9), 6(23) | 3,233 | 4,522 |
| Amortization | 6(10), 6(23) | 11,730 | 13,696 |
| Expected credit losses (gains) | 12(2) | 895 | (59) |
| Net losses on financial assets and liabilities at fair value through profit or loss | 6(2), 6(21) | (3,085) | (15,417) |
| Interest expenses | 6(9), 6(22) | 51 | 36 |
| Interest income | 6(19) | (1,463) | (984) |
| Share-based payment expenses | 6(13) | (895) | 3,795 |
| Share of (profit)/loss of associates and joint ventures accounted for using the equity method | 6(7) | 165 | 209 |
| (Gains) losses on disposal of property, plant and equipment | 6(21) | (400) | - |
| Unrealized gain on sales | | 259 | 70 |
| Changes in assets and liabilities relating to operating activities: | | | |
| Trade receivables | | (27,837) | 11,304 |
| Trade receivables from related parties | | (2,133) | 854 |
| Other receivables | | 2,080 | 3,173 |
| Inventories | | (9,012) | 55,783 |
| Prepayments | | (3,225) | (3,263) |
| Other current assets | | - | 57 |
| Cost to fulfill a contract | | (458) | (10,846) |
| Contract liabilities | | 5,875 | (91,162) |
| Trade payables | | 4,172 | (33,840) |
| Other payables | | (15,514) | (30,921) |
| Other current liabilities | | (66) | 18 |
| Cash generated from (used in) operating activities | | (1,867) | (64,330) |
| Interest received | | 904 | 962 |
| Interest paid | | (51) | (36) |
| Income tax refunded (paid) | | - | (21) |
| Net cash provided by (used in) operating activities | | (1,014) | (63,425) |
| Cash flows from investing activities | | | |
| Acquisition of financial assets at fair value through profit or loss | | (252,495) | - |
| Acquisition of property, plant and equipment | 6(8) | (476) | (302) |
| Disposal of property, plant and equipment proceeds | | 483 | - |
| Acquisition of intangible assets | 6(10) | (432) | (1,246) |
| Decrease in refundable deposits | | - | 60 |
| Net cash used in investing activities | | (252,920) | (1,488) |
| Cash flows from financing activities | | | |
| Cash payment for principal portion of lease liabilities | 6(28) | (989) | (2,050) |
| Net cash provided by (used in) financing activities | | (989) | (2,050) |
| Effect of changes in exchange rate on cash and cash equivalents | | 539 | (116) |
| Net increase (decrease) in cash and cash equivalents | | (254,384) | (67,079) |
| Cash and cash equivalents at the beginning of the period | | 435,827 | 586,925 |
| Cash and cash equivalents at the end of the period | | \$ 181,443 | \$ 519,846 |

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

Chairman : David Cheng

President : Jun-Jie Chen

Chief Financial Officer : Qin-Ya Su

English Translation of Financial Statements Originally Issued in Chinese
RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Organization and Operation

Rafael Microelectronics, Inc. (the “Company”) was incorporated on November 6, 2006. 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 company’s stocks have been traded on Taipei Exchange since December of 2016.

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

The consolidated financial statements were authorized for issuance in accordance with a resolution of the Board of Directors on May 3, 2024

3. Newly Issued or Revised Standards and Interpretations

- (1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRSs”) that came into effect as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments that came into effect as endorsed by FSC and became effective from 2024 are as follows:

| Item | New, Revised or Amended Standards and Interpretations | Effective Date |
|------|--|-----------------|
| 1 | “Lease Liability in a Sale and Leaseback” (Amendment to IFRS 16) | January 1, 2024 |
| 2 | “Classification of Liabilities as Current or Non-Current” (Amendment to IAS 1) | 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 |

The above standards, interpretations and amendments have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

- (2) Effect of new issuances of or amendments to IFRSs that came into effect as endorsed by the FSC but not yet adopted by the Group

None.

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

(3) IFRSs issued by IASB but not yet endorsed by the FSC

Apart from those listed below, the aforementioned standards and interpretations have no significant impact to the Group’s financial condition and financial performance:

| 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 | Amendments to IFRS 17 “Insurance Contracts” | January 1, 2023 |
| 4 | “Initial application of IFRS 17 and IFRS 9 — Comparative information” (Amendment to IFRS 17) | January 1, 2023 |
| 5 | “Presentation and Disclosure in Financial Statements” (Amendment to IFRS 18) | January 1, 2027 |
| 6 | “Lack of Exchangeability” (Amendment to IAS 21) | January 1, 2025 |

IFRS 18 “Presentation and Disclosure in Financial Statements”

IFRS 18 “Presentation and Disclosure in Financial Statements” replaces IAS 1 and updates the structure for the consolidated statement of comprehensive income. It also introduces disclosures about Management-defined Performance Measures (MPMs) and requirements to improve aggregation and disaggregation.

4. Summary of Significant Accounting Policies

The principal accounting policies adopted are presented below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Statement of Compliance

The consolidated financial statements of the Group for the three-month periods ended March 31, 2024 and 2023 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and IAS 34 “Interim Financial Reporting” as endorsed and become effective by the FSC.

(2) Basis of Preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets (including derivative instruments) at fair value through profit or loss.
- (b) 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)

- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations that came into effect as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of Consolidation

A. Basis of preparation of consolidated financial statements

- (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the noncontrolling interests having a deficit balance.
- (d) Changes in a parent’s ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. The consolidated entities are listed as follows:

| Investor | Subsidiary | Main business activities | Percentage of ownership | | | Description |
|------------------------------------|------------------------------------|---|-------------------------|-------------------|----------------|-------------|
| | | | March 31, 2024 | December 31, 2023 | March 31, 2023 | |
| The Company | Han Tang Co., Ltd. | General investing | 100% | 100% | 100% | Note |
| The Company | Rafael Microelectronics Korea | Promote sales of RF IC products | 100% | 100% | 100% | Note |
| Han Tang Co., Ltd. | HONG YU CO., LTD. | General investing | 100% | 100% | 100% | Note |
| HONG YU CO., LTD. | ShenZhen Rafael Microsystems, Inc. | Technical consultation and services of RF IC products | 100% | 100% | 100% | Note |
| ShenZhen Rafael Microsystems, Inc. | Rafael Semiconductors, Inc. | Design and sell RF IC products | 100% | 100% | 100% | Note |

Note: As it does not match the definition of a significant subsidiary, the entity's financial statements for the three months ended March 2024 and 2023 were not audited.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant limitations: None.

F. Significant subsidiaries the Group holds non-controlling interest in: None.

(4) Foreign Currency Translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional and presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are retranslated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

balance sheet; their translation differences are recognised in other comprehensive income. However, nonmonetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

- (d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is an associate, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even when the Group retains partial interest in the former foreign associate after losing significant influence over the former foreign associate, such transactions should be accounted for as disposal of all interest in these foreign operations.
- (c) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realized within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:
The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(9) Financial assets at amortized cost

- A. Financial assets at amortized cost are those that meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortized cost are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.
- D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(10) Accounts receivable

- A. Accounts receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(11) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(12) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(13) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses

(14) Investments accounted for using the equity method – associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognises change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(15) Property, plant, and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 must be depreciated separately
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of the fixed assets are as follows:

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

(16) Leases

- A. The Group recognizes right-of-use asset and lease liability for all leases which the Group is the lessee of those lease contracts. For leases that meet and elect 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 a straight-line basis over the lease term.
- B. 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 incremental borrowing rate. Lease payments include:
 - (a) fixed payments, less any lease incentives receivable;
 - (b) variable lease payments that depend on an index or a rate;
 - (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

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- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee will exercise an option to terminate the lease.

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

- C. 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 initial measurement of the lease liability;
 - (b) any lease payments made at or before the commencement date;
 - (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 applying a cost model. 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.

- D. For a lease modification that decreases the scope of the lease, the lessee shall account for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognise in profit or loss any gain or loss relating to the partial or full termination of the lease.

(17) Intangible assets

A. Patents

Recognized at the cost of acquisition, and amortized on a straight-line basis over their estimated useful life of 5 years.

B. Software

Recognized at the cost of acquisition, and amortized on a straight-line basis over their estimated useful life of 2-5 years.

C. Photo Masks

Recognized at the cost of acquisition, and amortized on a straight-line basis over their estimated useful life of 3 years.

(18) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due

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to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(19) Accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods, or services.
- B. The short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(20) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(21) Employee benefits

- A. Short-term employee benefits
Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.
- B. Pensions
Defined contribution plans
For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.
- C. Employees' compensation and directors' and supervisors' remuneration
Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Group calculates the number of shares based on the ~30~ closing price at the previous day of the Board meeting resolution.

(22) Employee share-based payment transactions

- A. Equity-settled share-based payments are measured at the fair value of the services received on the grant date. The cost of equity-settled share-based payments is recognized, together with a corresponding adjustment in other capital reserves in equity, over the period in which the performance and service conditions are fulfilled. The fair value of the equity instruments reflects the vesting and non-vesting conditions of the

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- market. The recognized costs will be adjusted in accordance with service conditions expected to be met and non-market conditions, until the cumulative expense recognized 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.
- B. Cash-settled share-based payments are measured at 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.
- C. Restricted Stock Awards
- (a) Recognized as compensation cost and measured at the fair value of the equity instruments received on the grant date.
 - (b) The right to participate in dividend distribution is not restricted and employees who resign within the vested period are not required to return the dividends they have received. On the dividend declaration date, the portion of dividends belonging to employees who are expected to resign within the vested period is recognized as compensation cost based on the fair value of the dividend.
 - (c) Under the condition that employees paying a price to acquire new shares with restricted employee rights, the company can offer a price to buy the rights back if the employee resigns within the vested period. For employees expected to resign within the vested period, the portion of price they paid on the date of grant is recognized as a liability, and the portion of the price paid by employees who are expected to eventually be granted is recognized as capital surplus-others. For employees, not required to pay a price to obtain new shares with restricted employee rights, resign during the vested period, the company will take them back without compensation and proceed to cancel the shares.

(23) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from research and development expenditures to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.
- F. The income tax expense for the interim period is calculated by applying the estimated annual average effective tax rate to the net income before income tax. The relevant information is disclosed in accordance with the aforementioned policies.

(24) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.
- B. When the company repurchases the issued shares, the paid price, including any directly attributable incremental costs, is recognized as a deduction from shareholders' equity on a net basis after tax. When the repurchased shares are subsequently reissued, the difference between the consideration received, after deducting any directly attributable additional costs and income tax effects, and the book value is recognized as an adjustment to shareholders equity.

(25) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

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

(26) Revenue recognition

A. Sales of goods

- (a) The Group manufactures and sells various integrated circuit related products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- (b) Revenue from these sales is recognised based on the price specified in the contract, less the expected sales discounts and allowances payable to customers.
- (c) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

B. Services revenue

Revenue from design, royalty and technical services is recognised after completing the services in which the services are rendered.

(27) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments

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

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory

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consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

6. Contents of Significant Accounts

(1) Cash and cash equivalents

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|-------------------------------|-------------------|----------------------|-------------------|
| Cash on hand | \$786 | \$816 | \$710 |
| Checking and savings accounts | 180,657 | 182,511 | 166,636 |
| Time deposits | - | 252,500 | 352,500 |
| Total | <u>\$181,443</u> | <u>\$435,827</u> | <u>\$519,846</u> |

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group's cash and cash equivalents were not pledged.

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

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|---|-------------------|----------------------|-------------------|
| Current items: | | | |
| Financial assets mandatorily measured at fair value through profit or loss: | | | |
| Listed company stocks | \$368,532 | \$368,532 | \$368,532 |
| Adjustments for changes in value | (25,995) | (29,080) | (15,847) |
| | <u>\$342,537</u> | <u>\$339,452</u> | <u>\$352,685</u> |

A. The Group's financial assets at fair value had a net income of \$3,085 and \$15,417, for the three months ended March 31, 2024 and 2023, respectively.

B. 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

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|----------------------------------|-------------------|----------------------|-------------------|
| Non-current items: | | | |
| Equity instruments | | | |
| Unlisted company stocks | \$19,142 | \$19,142 | \$19,142 |
| Adjustments for changes in value | (15,532) | (15,613) | (13,810) |
| | <u>\$3,610</u> | <u>\$3,529</u> | <u>\$5,332</u> |

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

- A. The Group has elected to classify instruments investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$3,610, \$3,529, and \$5,332 on March 31, 2024, December 31, 2023, and March 31, 2023, respectively.
- B. Amounts recognized in other comprehensive income in relation to the financial assets at fair value through other comprehensive income are \$81 and (\$874) for the three months ended March 31 2024 and 2023 respectively.
- C. The Group has no financial assets at fair value through other comprehensive income pledged to others.

(4) Financial assets at amortized cost

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|---|-------------------|----------------------|-------------------|
| Current items: | | | |
| Time deposits with maturity over three months | \$270,264 | \$17,769 | \$14,700 |

- A. Amounts recognized in other comprehensive income in relation to financial assets at amortized cost are listed below:

| | The three months ended March 31, 2024 | The three months ended March 31, 2023 |
|-----------------|--|--|
| Interest income | \$898 | \$49 |

- B. Without considering collateral held or other cases of increased credit, the Group's most representative financial assets at amortized cost have a maximum credit risk of \$270,264, \$17,769, and \$14,700 on March 31, 2024, December 31, 2023, and March 31, 2023, respectively.
- C. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2). The counterparties of the Group's investments in time deposits were financial institutions who have good credit quality, so it expects that the probability of counterparty default is remote.
- D. The Group has no financial assets at amortized cost pledged to others.

(5) Trade receivables

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|--|-------------------|----------------------|-------------------|
| Trade receivables | \$ 116,591 | \$ 88,754 | \$ 101,671 |
| Less: allowance for doubtful debts | (22,777) | (21,882) | (21,808) |
| | <u>\$ 93,814</u> | <u>\$ 66,872</u> | <u>\$ 79,863</u> |
| Trade receivables from related parties | <u>\$ 2,133</u> | <u>\$ -</u> | <u>\$ -</u> |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A. The aging analysis of accounts receivable is as follows:

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|--------------|-------------------|----------------------|-------------------|
| 0-90 days | \$95,947 | \$66,888 | \$79,998 |
| 91-180 days | - | - | - |
| 181-365 days | - | - | - |
| Over a year | 22,777 | 21,866 | 21,673 |
| | <u>\$118,724</u> | <u>\$88,754</u> | <u>\$101,671</u> |

B. As of March 31, 2024, December 31, 2023, and March 31, 2023, trade receivables were all from contracts with customers. As of January 1, 2023, the balance of receivables from contracts with customers amounted to \$113,829.

C. The Group's trade receivables were not pledged.

D. Without considering collateral held or other cases of increased credit, the Group's most representative trade receivables have a maximum credit risk of \$95,947, \$66,872, and \$79,863 on March 31, 2024, December 31, 2023, and March 31, 2023, respectively.

E. Information relating to credit risk of trade receivables is provided in Note 12(2).

(6) Inventories

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|-----------------|-------------------|----------------------|-------------------|
| Raw materials | \$125,990 | \$123,781 | \$133,354 |
| Work in process | 110,418 | 127,466 | 118,859 |
| Finished goods | 174,439 | 150,588 | 167,283 |
| Total | <u>\$410,847</u> | <u>\$401,835</u> | <u>\$419,496</u> |

The cost of inventories recognized in expenses amounted to NT\$143,276 thousand and NT\$192,211 thousand, including reversal of write-down of inventories of NT\$(3,808) thousand and NT\$(2,650) thousand for the three months ended March 31, 2024 and 2023, respectively.

(7) Investments accounted for using the equity method

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

| Investees | March 31, 2024 | | December 31, 2023 | | March 31, 2023 | |
|---|--------------------|----------------------------|--------------------|----------------------------|--------------------|----------------------------|
| | Carrying amount | Percentage of ownership | Carrying amount | Percentage of ownership | Carrying Amount | Percentage of ownership |
| Investments in jointly controlled entities: | | | | | | |
| Aluksen Hongxin Technology Co., Ltd. | <u>\$6,087</u> | 49% | <u>\$6,239</u> | 49% | <u>\$7,242</u> | 49% |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

A. The Group's share of operating results are as follows:

| | Three months ended March 31 | |
|---|-----------------------------|---------|
| | 2024 | 2023 |
| Loss from continuing operations (Total comprehensive income for the period) | \$(165) | \$(209) |

B. The Group's investments accounted for under the equity method for the three months ended March 31, 2024 and 2023 were taken from the Group's unaudited, self-compiled financial reports.

(8) Property, plant and equipment

A. The book value of property, plant and equipment are as follows:

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|--------------------------|-------------------|----------------------|-------------------|
| Land | \$128,490 | \$128,490 | \$128,490 |
| Buildings and facilities | 71,484 | 71,909 | 73,184 |
| Testing equipment | 8,845 | 9,938 | 14,311 |
| Transportation equipment | - | 125 | 500 |
| Office equipment | 1,649 | 1,782 | 2,862 |
| | <u>\$210,468</u> | <u>\$212,244</u> | <u>\$219,347</u> |

B. Changes in value to the property, plant, and equipment for the three months ended March 31, 2024 and 2023 are as follows:

| Cost: | Land | Buildings and facilities | Testing equipment | Transportation equipment | Office equipment | Total |
|------------------------------|------------------|-----------------------------|----------------------|-----------------------------|---------------------|------------------|
| As of January 1, 2024 | \$128,490 | \$84,968 | \$25,482 | \$2,500 | \$7,680 | \$249,120 |
| Additions | - | - | 207 | - | 269 | 476 |
| Disposals | - | - | (364) | (2,500) | (773) | (3,637) |
| Exchange differences | - | - | 121 | - | 116 | 237 |
| As of March 31, 2024 | <u>\$128,490</u> | <u>\$84,968</u> | <u>\$25,446</u> | <u>\$ -</u> | <u>\$7,292</u> | <u>\$246,196</u> |
| As of January 1, 2023 | \$128,490 | \$84,968 | \$36,344 | \$2,500 | \$8,035 | \$260,337 |
| Additions | - | - | - | - | 302 | 302 |
| Disposals | - | - | (5,556) | - | (511) | (6,067) |
| Exchange differences | - | - | 14 | - | 11 | 25 |
| As of March 31, 2023 | <u>\$128,490</u> | <u>\$84,968</u> | <u>\$30,802</u> | <u>\$2,500</u> | <u>\$7,837</u> | <u>\$254,597</u> |
| Depreciation and impairment: | | | | | | |
| As of January 1, 2024 | \$ - | \$13,059 | \$15,544 | \$2,375 | \$5,898 | \$36,876 |
| Depreciation | - | 425 | 1,350 | 42 | 417 | 2,234 |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| | | | | | | |
|-----------------------|-------------|-----------------|-----------------|----------------|----------------|-----------------|
| Disposals | - | - | (364) | (2,417) | (773) | (3,554) |
| Exchange differences | - | - | 71 | - | 101 | 172 |
| As of March 31, 2024 | <u>\$ -</u> | <u>\$13,484</u> | <u>\$16,601</u> | <u>\$ -</u> | <u>\$5,643</u> | <u>\$35,728</u> |
| As of January 1, 2023 | \$ - | \$11,359 | \$20,418 | \$1,875 | \$4,957 | \$38,609 |
| Depreciation | - | 425 | 1,625 | 125 | 521 | 2,696 |
| Disposals | - | - | (5,556) | - | (511) | (6,067) |
| Exchange differences | - | - | 4 | - | 8 | 12 |
| As of March 31, 2023 | <u>\$ -</u> | <u>\$11,784</u> | <u>\$16,491</u> | <u>\$2,000</u> | <u>\$4,975</u> | <u>\$35,250</u> |

C. There was no capitalization of borrowing costs attributable to the property, plant and equipment.

D. The Group has no property, plant and equipment pledged to others.

(9) Leasing arrangements – Lessee

A. The Group leases buildings, with lease terms ranging from 2 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Any action that affects the lessor's ownership of property, including renting, subletting, or selling the leased assets is prohibited, no other restrictions are imposed on the lessees.

B. Office and parking spaces leased by the Group have a lease term under 12 months.

C. The carrying amount of right-of-use assets and the depreciation are as follows:

| | Carrying amount | | |
|-----------|-----------------|-------------------|----------------|
| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
| Buildings | <u>\$5,609</u> | <u>\$6,478</u> | <u>\$5,345</u> |

| | Depreciation | |
|-----------|---|---|
| | For the three-month period ended March 31, 2024 | For the three-month period ended March 31, 2023 |
| Buildings | <u>\$999</u> | <u>\$1,826</u> |

D. For the three-month periods ended March 31, 2024 and 2023, the additions of right-of-use assets were both \$0.

E. The information on profit and loss accounts relating to lease contracts is as follows:

| | For the three-month period ended March 31, 2024 | For the three-month period ended March 31, 2023 |
|--|---|---|
| <u>Items affecting profit or loss</u> | | |
| Interest expense on lease liabilities | \$51 | \$36 |
| Expenses on short-term leases | 211 | 152 |
| Expenses on leases of low value assets | 7 | 19 |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

F. For the three-month period ended March 31, 2024 and 2023, the Group's total cash outflow for leases were \$1,258 and \$2,257, respectively.

G. Options for the extension and termination of leases:

- (a) For leases in which the lease subject is a building, the Group holds an option for lease extension.
- (b) When determining the lease term, the Group considers all facts and circumstances that would create economic incentives if the option for lease extension is exercised. When an event that affects the evaluation of a lease extension occurs, the lease term will be reevaluated.

(10) Intangible assets

| | 2024 | | | |
|---|----------------|-----------------|-----------------|-----------------|
| | Patents | Software | Photo Masks | Total |
| As of January 1, 2024 | | | | |
| Cost | \$4,703 | \$45,756 | \$103,130 | \$153,589 |
| Accumulated amortization | (2,849) | (16,495) | (79,965) | (99,309) |
| | <u>\$1,854</u> | <u>\$29,261</u> | <u>\$23,165</u> | <u>\$54,280</u> |
| As of January 1, 2024 | \$1,854 | \$29,261 | \$23,165 | \$54,280 |
| Additions – Individually acquired | 25 | 407 | - | 432 |
| Matured and delisted - Cost | (468) | - | (31,164) | (31,632) |
| Matured and delisted – Accumulated amortization | 468 | - | 31,164 | 31,632 |
| Amortization | (225) | (3,840) | (7,665) | (11,730) |
| As of March 31, 2024 | <u>\$1,654</u> | <u>\$25,828</u> | <u>\$15,500</u> | <u>\$42,982</u> |
| As of March 31, 2024 | | | | |
| Cost | \$4,260 | \$46,163 | \$71,966 | \$122,389 |
| Accumulated Amortization | (2,606) | (20,335) | (56,466) | (79,407) |
| | <u>\$1,654</u> | <u>\$25,828</u> | <u>\$15,500</u> | <u>\$42,982</u> |
| | 2023 | | | |
| | Patents | Software | Photo Masks | Total |
| As of January 1, 2023 | | | | |
| Cost | \$10,732 | \$43,750 | \$117,306 | \$171,788 |
| Accumulated amortization | (7,980) | (20,188) | (57,655) | (85,823) |
| | <u>\$2,752</u> | <u>\$23,562</u> | <u>\$59,651</u> | <u>\$85,965</u> |
| As of January 1, 2023 | \$2,752 | \$23,562 | \$59,651 | \$85,965 |
| Additions – Individually acquired | 4 | 1,242 | - | 1,246 |
| Matured and delisted - Cost | (4,969) | (335) | (3,536) | (8,840) |
| Matured and delisted – Accumulated amortization | 4,969 | 335 | 3,536 | 8,840 |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| | | | | |
|--------------------------|----------------|-----------------|-----------------|-----------------|
| Amortization | (286) | (3,733) | (9,677) | (13,696) |
| As of March 31, 2023 | <u>\$2,470</u> | <u>\$21,071</u> | <u>\$49,974</u> | <u>\$73,515</u> |
| As of March 31, 2023 | | | | |
| Cost | \$5,767 | \$44,657 | \$113,770 | \$164,194 |
| Accumulated Amortization | <u>(3,297)</u> | <u>(23,586)</u> | <u>(63,796)</u> | <u>(90,679)</u> |
| | <u>\$2,470</u> | <u>\$21,071</u> | <u>\$49,974</u> | <u>\$73,515</u> |

Amortization expenses of intangible assets were as follows:

| | | |
|-------------------------|-----------------------------|---------------|
| | Three months ended March 31 | |
| | 2024 | 2023 |
| Administrative expenses | \$120 | \$ - |
| R&D expenses | 11,610 | 13,696 |
| | <u>11,730</u> | <u>13,696</u> |

(11) Other payables

| | | | |
|--|-------------------|----------------------|-------------------|
| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
| Accrued salaries and bonus | \$15,759 | \$28,668 | \$4,800 |
| Payable for employees' compensation and directors' and supervisors' remuneration | 26,167 | 30,288 | 53,482 |
| Dividends payable | - | - | 122,372 |
| Others | 24,514 | 22,998 | 23,332 |
| | <u>\$66,440</u> | <u>\$81,954</u> | <u>\$203,986</u> |

(12) Pension

- A. The Company and domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Pension Act. For employees covered by the Act, the Company contributes a monthly amount equal to 6% of the employees' monthly salaries and wages to the employee's individual retirement reserve funds overlooked by the Bureau of Labor Insurance. The pensions shall be received through either monthly pension payments or a lump-sum pension payment.
- B. For subsidiaries in mainland China, the Group contributes a monthly amount based on certain percentage of employees' monthly salaries and wages to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC). Every employee's pension is administered by the government.
- C. Pension plans for other overseas subsidiaries are defined according to local laws and regulations.
- D. The pension costs under the defined contribution pension plans of the Group for the three-month periods ended March 31, 2024 and 2023 were \$1,788 and \$1,710, respectively.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(13) Share-based payments:

A. The Group's share-based payment arrangements are as follows:

| Arrangement type | Date of grant | Number of options granted | Term of contract | Vesting conditions |
|--|-------------------------------------|----------------------------|------------------|--|
| Employee stock option (ESO) | August 10, 2017 | 167 thousand | 6 years | 2 years of service: 50% vested ESOs 3 years of service: 75% vested ESOs 4 years of service: 100% vested ESOs |
| Treasury shares transferred to employees | May 5, 2022 November 9, 2022 | 168 thousand 4 thousand | - | Immediate vesting |
| Stock appreciation rights plan | Implemented from May, 2021 | 54 thousand | 3 years | Length of service and performance conditions |
| Restricted stock awards | October 25, 2019 – July 30, 2020 | 400 thousand | 3 years | Length of service and performance conditions |
| Restricted stock awards | November 11, 2020 – August 11, 2021 | 311 thousand | 3 years | Length of service and performance conditions |

The agreements listed above are all equity-settled share-based payment transactions, except for the stock appreciation rights plan, which is cash-settled.

B. Information on the employee stock option is as follows:

March 31, 2024: No such scenario.

| | 2023 | |
|--|--------------------------|--|
| | Options (thousand units) | Weighted average exercise price (NT\$) |
| Outstanding on January 1, 2023 (i.e. Outstanding on March 31, 2023) | 50 | 129.9 |
| Exercisable on March 31, 2023 | 50 | 129.9 |

- (a) As of March 31, 2023, options outstanding had a exercise price of NT\$129.9, the weighted average of the remaining contract terms is 0.333 years.
- (b) The Group uses the binomial options pricing model to estimate the fair value of the employee stock options on the date of grant. Relevant information is as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| Agreement Type | Date of grant | Price of stock | Exercise price | Estimated volatility rate | Estimated duration | Estimated dividends | Risk-free rate | Fair value per unit |
|-----------------------|-----------------|----------------|----------------|---------------------------------|--------------------|---------------------|-------------------------|-----------------------------|
| Employee stock option | August 10, 2017 | NT\$ 191.50 | NT\$ 191.50 | 21.23% - 21.83% (Note) | 4-5 years | - | 0.6924% - 0.7594% | NT\$35.32 - NT\$38.95 |

Note: The estimated volatility rate hypothesizes that the historical volatility rates of durations similar to the duration of employee stock options reflect future trends.

C. Information on the treasury shares transferred to employees are as follows:

To motivate employees, the Board decided to buy back the Company's shares and transfer them to employees on April 6, 2020. 340 thousand shares were bought back following this decision.

On May 4 and November 9, 2022, the Board decided to transfer 168 thousand and 4 thousand shares to employees, respectively. The exercise prices were NT\$93 and NT\$75, and the stock prices were NT\$154 and NT\$ 138, respectively. Employees who met certain requirements of the Group were granted these shares.

D. Information on the restricted stock awards are as follows:

| | 2024 | 2023 |
|---|----------|------------|
| Restricted stock awards as of January 1 | 42 | 383 |
| Restrictions lifted this period | (17) | (82) |
| Restricted stock awards forfeited but not yet cancelled this period | (18) | (12) |
| Restricted stock awards as of March 31 | <u>7</u> | <u>289</u> |

(a) If vesting conditions are not yet met for restricted stock awards issued by the Group, restrictions are as follows:

Restricted stock awards issued on October 25, 2019, April 30, 2020, and July 30, 2020 have a duration of three 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:

- i. May not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted employee shares.
- ii. Entitled to receive stock dividend and cash dividend from the restricted stocks

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

granted, but excluded from subscription right of capital increase by cash.

- iii. Upon issuance, the new restricted stocks shall be deposited in the custodian organizations according to the trust contracts. During the vesting period, eligible employees are not allowed to request for returning the stocks from the trustee for any reason or any way.

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

Restricted stock awards issued on November 11, 2020, May 5, 2021, and August 11, 2021 have a duration of three 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:

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

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

- (b) As of March 31, 2024, the Group's outstanding restricted stock awards are listed below:

| Date of grant | Number of shares issued (thousand shares) | Exercise price (NT\$) | Fair value per unit (NT\$) | Restricted stocks at the end of the period (thousand shares) |
|-----------------|--|--------------------------|-------------------------------|---|
| May 5, 2021 | 30 | - | 146.5 | - |
| August 11, 2021 | 38 | - | 227.5 | 7 |

As of March 31, 2023, the Group's outstanding restricted stock awards are listed below:

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| Date of grant | Number of shares issued (thousand shares) | Exercise price (NT\$) | Fair value per unit (NT\$) | Restricted stocks at the end of the period (thousand shares) |
|-------------------|--|--------------------------|-------------------------------|---|
| April 20, 2020 | 378 | 75.6 | 50.4 | 119 |
| July 30, 2020 | 12 | 82.8 | 55.2 | 5 |
| November 11, 2020 | 243 | - | 129.0 | 123 |
| May 5, 2021 | 30 | - | 146.5 | 30 |
| August 11, 2021 | 38 | - | 227.5 | 12 |

- (c) The Group recognized NT\$1,566 thousand and NT\$35,798 thousand capital surplus-restricted stocks, and NT\$728 thousand and NT\$11,503 thousand unearned employee compensation as of March 31, 2024 and 2023, respectively.

E. Information on the stock appreciation rights plan is as follows:

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

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

- (a) March 31, 2024: No such scenario.

As of March 31, 2023, the assumptions used are presented below:

| | <u>Stock appreciation right plan for employees</u> |
|---|--|
| Share price of measurement date (per share) | NT\$164.5 |
| Expected volatility | 28.88% - 59.41% |
| Expected life | 0.08 - 1.08 Years |
| Expected dividend yield | 2.94% |
| Risk free interest rate | 1.02% - 1.06% |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (b) As of March 31, 2023, the liability for stock appreciation right recognized was NT\$6,694 thousand. Those which were classified under other payables amounted to NT\$3,396 thousand and those classified under long-term payables amounted to NT\$3,298 thousand as of March 31, 2023. The intrinsic value for the liability of vested rights was nil.

F. Expenses incurred through the share-based payment transactions are listed below:

| | For the three-month period ended March 31, 2024 | For the three-month period ended March 31, 2023 |
|---|---|---|
| Restricted stock awards – equity-settled | (\$2,208) | \$1,103 |
| Treasury shares transferred to employees – equity-settled | 1,313 | 1,313 |
| Stock appreciation rights plan – cash-settled | - | 1,379 |
| | <u>(\$895)</u> | <u>\$3,795</u> |

(14) Share capital

- A. The Company’s authorized capital as of March 31, 2024, was NT\$500,000 thousand, divided into 50,000 thousand shares, and the paid-in capital was \$307,291 thousand with a par value of NT\$10 per share. All proceeds from shares issued have been collected.

Movements in the number (thousands of shares) of the Company’s common shares outstanding are as follows:

| | 2024 | 2023 |
|-----------------------------------|---------------|---------------|
| As of January 1 | 30,731 | 30,779 |
| Restricted stock awards cancelled | (2) | (14) |
| As of March 31 | <u>30,729</u> | <u>30,765</u> |

B. Treasury shares:

- (a) Amount of shares bought back and reasoning:

| | | March 31, 2024 | |
|-------------------------------|---------------------------|---------------------------------------|--------------------|
| Company holding the shares | Reason for buyback | Amount of shares (thousand shares) | Carrying amount |
| The Company | For transfer to employees | 168 | \$21,130 |
| | | December 31, 2023 | |
| Company holding the shares | Reason for buyback | Amount of shares (thousand shares) | Carrying amount |
| The Company | For transfer to employees | 168 | \$21,130 |

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

| Company holding the shares | Reason for buyback | March 31, 2023 | |
|-------------------------------|---------------------------|---------------------------------------|--------------------|
| | | Amount of shares (thousand shares) | Carrying amount |
| The Company | For transfer to employees | 168 | \$21,130 |

- (b) According to the Securities and Exchange Act, the number of shares a company buys back may not exceed ten percent of the total number of issued and outstanding shares of the company. The total amount of the shares bought back also may not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve.
- (c) According to the Securities and Exchange Act, the shares bought back by the Company must not be pledged. Before transfer, the shareholder's rights shall not be enjoyed.
- (d) According to the Securities and Exchange Act, the shares bought back by a company shall be transferred within five years from the date of buyback. The shares not transferred within the said time limit shall be deemed as not issued by the company, and amendment registration shall be processed. For when the buyback is required to maintain the company's credit and shareholders' rights and interests, the shares should be cancelled within six months from the date of buyback.

(15) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

| | 2024 | | | | |
|----------------------------|------------------|-----------------------------------|-------------------------------|---------|-----------|
| | Share premium | Treasury share transactions | Restricted stock awards | Others | Total |
| As of January 1 | \$374,203 | \$4,743 | \$6,705 | \$7,512 | \$393,163 |
| Restricted stock awards | 2,682 | - | (5,139) | - | (2,457) |
| As of March 31 | \$376,885 | \$4,743 | \$1,566 | \$7,512 | \$390,706 |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| | 2023 | | | | | |
|----------------------------|------------------|-----------------------------------|------------------------------|-------------------------------|---------|-----------|
| | Share premium | Treasury share transactions | Employee stock options | Restricted stock awards | Others | Total |
| As of January 1 | \$349,994 | \$4,743 | \$2,174 | \$48,175 | \$5,339 | \$410,425 |
| Restricted stock awards | 9,767 | - | - | (12,377) | - | (2,610) |
| As of March 31 | \$359,761 | \$4,743 | \$2,174 | \$35,798 | \$5,339 | \$407,815 |

(16) Retained earnings

- A. According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:
- Reserve for tax payments;
 - Offset accumulated losses in previous years, if any;
 - 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;
 - Allocation or reversal of special reserves as required by law or government authorities;
 - The shareholders' meeting shall determine by a resolution to retain or distribute the remaining net profits and the beginning balance of retained earnings.

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

- B. The Company's dividend policy is as follows: Since the Company conducts business in a technology-intensive high-tech industry and continues operating in its growth phase, the Company adopts the residual dividend policy to ensure the solid growth and sustainable operations to strike a balance between shareholders' demand on cash flows and the Company's long-term capital planning. The dividend distribution plan shall account for the operation development and demand of cash 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.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- C. 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.
- D. When distributing distributable earnings, the Company shall set aside amount to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the corresponding amount of special reserve reversed may be distributed.
- E. On March 22, 2023, the Board of Directors of the Company proposed to distribute cash dividends from capital surplus in 2022 to shareholders in the amount of NT\$122,372 thousand (NT\$4 per share).

On May 3, 2024, the Board of Directors of the Company proposed to distribute cash dividends from capital surplus in 2023 to shareholders in the amount of NT\$55,312 thousand (NT\$1.8 per share).

(17) Other equity items

| | 2024 | | | |
|--|--|-------------------------------|---|------------|
| | Currency translation differences | Employee unearned salaries | Unrealized gains (losses) on valuation | Total |
| As of January 1 | \$55 | (\$2,470) | (\$15,613) | (\$18,028) |
| Currency translation differences: | | | | |
| - Group | 873 | - | - | 873 |
| Share-based transactions remuneration cost | - | 1,742 | - | 1,742 |
| Adjustments for change in value | - | - | 81 | 81 |
| As of March 31 | \$928 | (\$728) | (\$15,532) | (\$15,332) |
| | 2023 | | | |
| | Currency translation differences | Employee unearned salaries | Unrealized gains (losses) on valuation | Total |
| As of January 1 | (\$436) | (\$16,649) | (\$12,936) | (\$30,021) |
| Currency translation differences: | | | | |
| | (61) | - | - | (61) |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| | | | | |
|--|----------------|-------------------|-------------------|-------------------|
| - Group | | | | |
| Share-based transactions remuneration cost | - | 5,146 | - | 5,146 |
| Adjustments for change in value | - | - | (874) | (874) |
| As of March 31 | <u>(\$497)</u> | <u>(\$11,503)</u> | <u>(\$13,810)</u> | <u>(\$25,810)</u> |

(18) Operating revenue

| | | |
|---------------------------------------|------------------------------------|------------------|
| | <u>Three months ended March 31</u> | |
| | <u>2024</u> | <u>2023</u> |
| Revenue from contracts with customers | | |
| Sale of goods | <u>\$244,826</u> | <u>\$301,343</u> |

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time in the following major geographical areas:

| <u>For the three-month period ended March 31, 2024</u> | <u>Taiwan</u> | <u>China</u> | <u>Other Asian countries</u> | <u>Europe and America</u> | <u>Total</u> |
|--|-----------------|------------------|------------------------------|---------------------------|------------------|
| Revenue from external customer contracts | <u>\$10,936</u> | <u>\$205,858</u> | <u>\$23,725</u> | <u>\$4,307</u> | <u>\$244,826</u> |
| Timing of revenue recognition | | | | | |
| At a point in time | <u>\$10,936</u> | <u>\$205,858</u> | <u>\$23,725</u> | <u>\$4,307</u> | <u>\$244,826</u> |
| <u>For the three-month period ended March 31, 2023</u> | <u>Taiwan</u> | <u>China</u> | <u>Other Asian countries</u> | <u>Europe and America</u> | <u>Total</u> |
| Revenue from external customer contracts | <u>\$6,949</u> | <u>\$202,259</u> | <u>\$85,355</u> | <u>\$6,780</u> | <u>\$301,343</u> |
| Timing of revenue recognition | | | | | |
| At a point in time | <u>\$6,949</u> | <u>\$202,259</u> | <u>\$85,355</u> | <u>\$6,780</u> | <u>\$301,343</u> |

B. Contract liabilities

(a) The Group has recognized the following revenue-related contract liabilities:

| | | | | |
|-----------------------|-----------------------|--------------------------|-----------------------|------------------------|
| | <u>March 31, 2024</u> | <u>December 31, 2023</u> | <u>March 31, 2023</u> | <u>January 1, 2023</u> |
| Contract liabilities: | | | | |
| Sale of goods | <u>\$10,975</u> | <u>\$5,100</u> | <u>\$42,374</u> | <u>\$132,198</u> |
| Services | <u>3,025</u> | <u>3,025</u> | <u>12,957</u> | <u>14,295</u> |
| Total | <u>\$14,000</u> | <u>\$8,125</u> | <u>\$55,331</u> | <u>\$146,493</u> |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

- (b) Revenue recognized that was included in the contract liability balance at the beginning of the period:

| | Three months ended March 31 | |
|---|-----------------------------|----------|
| | 2024 | 2023 |
| Revenue recognized during the period that was included in the beginning balance | \$2,373 | \$92,737 |

- (c) Transaction price allocated to unsatisfied performance obligations

As of March 31, 2024 and 2023, the total of transaction price allocated to unsatisfied performance obligations regarding rendering of service were NT\$27,616 and NT\$16,438 thousand, respectively.

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

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. As of March 31, 2024 and 2023, the balance was NT\$3,032 thousand and NT\$17,187 thousand, respectively. NT\$458 thousand and NT\$16,050 thousand amortization were recorded as operating costs for the three months ended March 31, 2024 and 2023.

(19) Interest income

| | Three months ended March 31 | |
|------------------------------------|-----------------------------|--------|
| | 2024 | 2023 |
| Interest income from bank deposits | \$ 1,463 | \$ 984 |

(20) Other income

| | Three months ended March 31 | |
|----------------------|-----------------------------|------|
| | 2024 | 2023 |
| Other income - other | \$ 1 | \$ 2 |

(21) Other gains and losses

| | Three months ended March 31 | |
|--|-----------------------------|--------|
| | 2024 | 2023 |
| Gains on disposal of property, plant and equipment | \$ 400 | \$ - |
| Net currency exchange gains (losses) | 5,747 | (728) |
| Net gains on financial assets at fair value through profit or loss | 3,085 | 15,417 |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| | | |
|-------|----------|-----------|
| Other | (414) | (533) |
| | \$ 8,818 | \$ 14,156 |

(22) Finance costs

| | Three months ended March 31 | |
|----------------------------|-----------------------------|------|
| | 2024 | 2023 |
| Interest expenses: | | |
| Lease liabilities interest | \$51 | \$36 |

(23) Expenses by nature

| | Three months ended March 31 | |
|---|-----------------------------|-----------|
| | 2024 | 2023 |
| Employee benefit expenses | \$ 49,908 | \$ 57,561 |
| Property, plant and equipment depreciation expenses | 2,234 | 2,696 |
| Right-of-use assets depreciation expenses | 999 | 1,826 |
| Intangible assets amortization expenses | 11,730 | 13,696 |

(24) Employee benefit expenses

| | Three months ended March 31 | |
|------------------------|-----------------------------|-----------|
| | 2024 | 2023 |
| Payroll | \$ 43,331 | \$ 50,255 |
| Labor/Health insurance | 3,553 | 3,464 |
| Pension | 1,788 | 1,710 |
| Others | 1,236 | 2,132 |
| | \$ 49,908 | \$ 57,561 |

A. According to the Articles of Incorporation of the Company, no less than 4% of profit of the current year is distributable as employees' compensation and no more than 4% of profit of the current year is distributable as remuneration to directors. However, the Company's accumulated losses shall have been covered (if any).

B. For the three-month periods ended March 31, 2024 and 2023, employees' compensation was accrued at NT\$2,550 thousand and NT\$5,200 thousand, respectively; directors' remuneration was accrued at NT\$525 thousand and NT\$1,400 thousand, respectively. The employees' compensation and remuneration to directors were recognized as payroll expenses.

The employees' compensation and directors' remuneration were estimated based on a certain percentage of the Company's earnings for the three-month period ended March 31, 2024.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Employees' compensation and directors' remuneration for 2023 was resolved at the meeting of the Board of Directors, who agreed with those amounts recognized in the 2023 financial statements.

Information about employees' compensation and directors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(25) Income tax

A. Income tax expense

Components of the income tax expense:

| | <u>Three months ended March 31</u> | |
|---|------------------------------------|----------------|
| | <u>2024</u> | <u>2023</u> |
| Current income tax: | | |
| Current income tax on profit for the period | \$6,025 | \$6,322 |
| Deferred income tax: | | |
| Origination and reversal of temporary differences | 272 | (497) |
| Income tax expense | <u>\$6,297</u> | <u>\$5,825</u> |

B. As of March 31, 2024, the Company's income tax returns through 2022 have been assessed and approved by the Tax Authority.

(26) Earnings per share

| | <u>For the three-month period ended March 31,</u> | | |
|--|---|---------------------------|------------------|
| | <u>2024</u> | | |
| | <u>Amount after</u> | <u>Weighted average</u> | <u>Earnings</u> |
| | <u>tax</u> | <u>number of common</u> | <u>per share</u> |
| | | <u>shares outstanding</u> | <u>(NT\$)</u> |
| | | <u>(shares in</u> | |
| | | <u>thousands)</u> | |
| <u>Basic earnings per share</u> | | | |
| Profit attributable to common shareholders of the parent company | <u>\$27,464</u> | <u>30,427</u> | <u>\$0.90</u> |
| <u>Diluted earnings per share</u> | | | |
| Profit attributable to common shareholders of the parent company | \$27,464 | 30,427 | = |
| Assumed conversion of all dilutive potential common shares | | | |
| Employees' compensation | - | 45 | |
| Restricted stock awards | - | 6 | |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Profit attributable to common shareholders of the parent company plus assumed conversion of all dilutive potential common shares

| | | |
|---|--------|--------|
| \$27,464 | 30,478 | \$0.90 |
| For the three-month period ended March 31, 2023 | | |

| | | |
|------------------|--|---------------------------|
| Amount after tax | Weighted average number of common shares outstanding (shares in thousands) | Earnings per share (NT\$) |
|------------------|--|---------------------------|

Basic earnings per share

Profit attributable to common shareholders of the parent company

| | | |
|----------|----------|--------|
| \$22,820 | \$30,214 | \$0.76 |
|----------|----------|--------|

Diluted earnings per share

Profit attributable to common shareholders of the parent company

| | | |
|----------|--------|---|
| \$22,820 | 30,214 | = |
|----------|--------|---|

Assumed conversion of all dilutive potential common shares

Employees' compensation

| | |
|---|-----|
| - | 159 |
|---|-----|

Employee stock options

| | |
|---|----|
| - | 10 |
|---|----|

Restricted stock awards

| | |
|---|-----|
| - | 226 |
|---|-----|

Profit attributable to common shareholders of the parent company plus assumed conversion of all dilutive potential common shares

| | | |
|----------|--------|--------|
| \$22,820 | 30,609 | \$0.75 |
|----------|--------|--------|

(27) Supplemental cash flow information

Financing activities that don't affect cash flows:

Cash dividends declared but not yet distributed

| | |
|-----------------------------|-----------|
| Three months ended March 31 | |
| 2024 | 2023 |
| \$- | \$122,372 |

(28) Changes in liabilities from financing activities

| | | |
|--|-------------------|-------------------|
| | 2024 | 2023 |
| | Lease liabilities | Lease liabilities |
| As of January 1 | \$6,552 | \$7,032 |
| Changes in cash flow from financing activities | (989) | (2,050) |
| Impact of changes in foreign exchange | 132 | 11 |
| As of March 31 | \$5,695 | \$4,993 |

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

7. Related Party Transactions

- (1) Name and nature of relationship of the related parties

| Name of the related parties | Nature of relationship of the related parties |
|-----------------------------|---|
| Rafael Semiconductors, Inc. | Associate |

- (2) Significant transactions with the related parties

A. Operating revenue

| | Three months ended March 31 | |
|-----------------------------|-----------------------------|------|
| | 2024 | 2023 |
| Rafael Semiconductors, Inc. | \$3,016 | \$- |

The Company's sales price and payment terms to the related parties has no significant difference compared to sales of goods to non-related parties.

B. Sales return

| | Three months ended March 31 | |
|-----------------------------|-----------------------------|---------|
| | 2024 | 2023 |
| Rafael Semiconductors, Inc. | \$- | \$4,454 |

C. Receivables from related parties

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|-----------------------------|-------------------|----------------------|-------------------|
| Rafael Semiconductors, Inc. | \$2,133 | \$ - | \$ - |

Aforementioned receivables were 30 days after monthly billings. The receivables from related parties arise mainly from sale transactions. The receivables were not recognized in allowance for credit losses.

D. Contract liabilities

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|-----------------------------|-------------------|----------------------|-------------------|
| Rafael Semiconductors, Inc. | \$ - | \$981 | \$3,576 |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

E. Key management personnel compensation of the Group

| | Three months ended March 31 | |
|----------------------------------|-----------------------------|-----------------|
| | 2024 | 2023 |
| Short-term employee benefits | \$5,485 | \$8,664 |
| Post-employment benefits | 143 | 198 |
| Share-based payment transactions | 130 | 2,309 |
| | <u>\$5,758</u> | <u>\$11,171</u> |

8. Assets Pledged as Collateral

None.

9. Contingencies and Off Balance Sheet Commitments

None.

10. Losses due to Major Disasters

None.

11. Significant Subsequent Events

Information of cash dividends from 2023 earnings distribution as resolved by the Board of Directors on May 3, 2024 is provided in Note 6(16).

12. Others

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's strategy is to focus on balancing the overall capital structure.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(2) Financial instruments

A. Financial instruments by category

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|---|-------------------|----------------------|-------------------|
| <u>Financial assets</u> | | | |
| Financial assets at fair value through profit or loss: | | | |
| Mandatorily measured at fair value through profit or loss | \$342,537 | \$339,452 | \$352,685 |
| Financial assets at fair value through other comprehensive income | | | |
| Designation of equity instrument | \$3,610 | \$3,529 | \$5,332 |
| Financial assets measured at amortized cost | | | |
| Cash and cash equivalents | \$181,443 | \$435,827 | \$519,846 |
| Financial assets at amortized cost | 270,264 | 17,769 | 14,700 |
| Accounts receivable (including related parties) | 95,947 | 66,872 | 79,863 |
| Other receivables | 22,220 | 23,741 | 21,405 |
| Refundable deposits | 970 | 970 | 992 |
| | <u>\$570,844</u> | <u>\$545,179</u> | <u>\$636,806</u> |
| <u>Financial liabilities</u> | | | |
| Financial liabilities measured at amortized cost | | | |
| Accounts payable | \$77,848 | \$73,676 | \$68,331 |
| Other payables | 66,440 | 81,954 | 203,986 |
| | <u>\$144,288</u> | <u>\$155,630</u> | <u>\$272,317</u> |
| Lease liabilities | <u>\$5,695</u> | <u>\$6,552</u> | <u>\$4,993</u> |

B. Objectives and policies of financial risk management

- (a) 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.
- (b) 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.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenues or expenses are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign operations.
- ii. Part of the Group's trade receivables and payables are denominated in the same foreign currencies, therefore, the hedging effect arises naturally when positions of receivables and payables are close. Furthermore, the net investments in foreign operations are not hedged by the Group as they are for strategic purposes.
- iii. The Group's businesses involve some non-functional currencies (the Company's and some subsidiaries functional currency: NTD; other subsidiaries' functional currency: USD, CNY and KRW), and therefore are affected by the volatility in exchange rate. Information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| | March 31, 2024 | | |
|---|---|------------------|---------------------|
| | Foreign currency amount (in thousands) | Exchange rate | Book value (NTD) |
| (Foreign currency: functional currency) | | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$7,530 | 31.99 | \$240,885 |
| CNY:NTD | 4,774 | 4.5088 | 21,525 |
| EUR:NTD | 586 | 34.4724 | 20,201 |
| KRW:NTD | 169,542 | 0.02376 | 4,028 |
| <u>Non-monetary items</u> | | | |
| CNY:NTD | 1,350 | 4.5088 | 6,087 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | 2,996 | 31.99 | 95,842 |
| CNY:NTD | 322 | 4.5088 | 1,452 |
| KRW:NTD | 1,699 | 0.02376 | 40 |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| | December 31, 2023 | | |
|---|---|------------------|---------------------|
| | Foreign currency amount (in thousands) | Exchange rate | Book value (NTD) |
| (Foreign currency: functional currency) | | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$5,567 | 30.71 | \$170,948 |
| CNY:NTD | 4,188 | 4.329 | 18,128 |
| EUR:NTD | 1,077 | 34.01 | 36,637 |
| KRW:NTD | 149,495 | 0.0238 | 3,558 |
| <u>Non-monetary items</u> | | | |
| CNY:NTD | 1,441 | 4.329 | 6,239 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | 2,948 | 30.71 | 90,540 |
| CNY:NTD | 261 | 4.329 | 1,132 |
| KRW:NTD | 2,363 | 0.0238 | 56 |
| | March 31, 2023 | | |
| | Foreign currency amount (in thousands) | Exchange rate | Book value (NTD) |
| (Foreign currency: functional currency) | | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$6,438 | 30.44 | \$195,973 |
| CNY:NTD | 2,100 | 4.430 | 9,303 |
| EUR:NTD | 1,007 | 33.15 | 33,382 |
| KRW:NTD | 161,584 | 0.0235 | 3,789 |
| <u>Non-monetary items</u> | | | |
| CNY:NTD | 1,635 | 4.430 | 7,242 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | 2,797 | 30.44 | 85,141 |
| KRW:NTD | 1,308 | 0.0235 | 31 |

- iv. For the three months ended March 31, 2024 and 2023, exchange gains (losses), including realized and unrealized, arising from significant foreign exchange variation on the monetary items held by the Group amounted to NT\$5,747 and (\$728), respectively.
- v. Analysis of foreign currency market risk arising from significant foreign exchange variation is as follows:

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| March 31, 2024 | | | | |
|---|---------------------|------------------------|-----------------------------|--|
| | Book value (NTD) | Sensitivity analysis | | |
| | | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| (Foreign currency: functional currency) | | | | |
| <u>Financial assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | \$240,885 | 1% | \$2,409 | \$- |
| CNY:NTD | 21,525 | 1% | 215 | - |
| EUR:NTD | 20,201 | 1% | 202 | - |
| KRW:NTD | 4,028 | 1% | 40 | - |
| <u>Non-monetary items</u> | | | | |
| CNY:NTD | 6,087 | 1% | - | 61 |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | 95,842 | 1% | 958 | - |
| CNY:NTD | 1,452 | 1% | 15 | - |
| KRW:NTD | 40 | 1% | - | - |
| December 31, 2023 | | | | |
| | Book value (NTD) | Sensitivity analysis | | |
| | | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| (Foreign currency: functional currency) | | | | |
| <u>Financial assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | \$170,948 | 1% | \$1,709 | \$- |
| CNY:NTD | 18,128 | 1% | 181 | - |
| EUR:NTD | 36,637 | 1% | 366 | - |
| KRW:NTD | 3,558 | 1% | 36 | - |
| <u>Non-monetary items</u> | | | | |
| CNY:NTD | 6,239 | 1% | - | 62 |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | 90,540 | 1% | 905 | - |
| CNY:NTD | 1,132 | 1% | 11 | - |
| KRW:NTD | 56 | 1% | 1 | - |
| March 31, 2023 | | | | |
| | Book value (NTD) | Sensitivity analysis | | |
| | | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| (Foreign currency: functional currency) | | | | |
| <u>Financial assets</u> | | | | |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Monetary items

| | | | | |
|---------|-----------|----|---------|-----|
| USD:NTD | \$195,973 | 1% | \$1,960 | \$- |
| CNY:NTD | 9,303 | 1% | 93 | - |
| EUR:NTD | 33,382 | 1% | 334 | - |
| KRW:NTD | 3,789 | 1% | 38 | - |

Non-monetary items

| | | | | |
|---------|-------|----|---|----|
| CNY:NTD | 7,242 | 1% | - | 72 |
|---------|-------|----|---|----|

Financial liabilities

Monetary items

| | | | | |
|---------|--------|----|-----|---|
| USD:NTD | 85,141 | 1% | 851 | - |
| KRW:NTD | 31 | 1% | - | - |

Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and financial assets 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 are submitted to the Group's senior management on a regular basis. The Board of Directors reviews and approves all investments in preferred shares and equity securities according to level of authority.
- ii. The Group's investments in equity securities comprise shares issue by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, income before tax for the three-month periods ended March 31, 2024 and 2023 would have increased/decreased by NT\$3,425 and NT\$3,527, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Othr components of equity would have increased/decreased by NT\$36 and NT\$53, respectively, as a result of gains/losses on equity securities classified as at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

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

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(b) Credit risk

- i. Credit risk is the risk that counterparty will not fulfill its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for trade receivables and notes receivables) and from its financing activities, including bank deposits and various financial instruments.
- ii. Credit risk is managed by each business unit subject to the Group's established policies, procedures and controls relating to credit risk management. Credit risk assessments are established for all trading partners based on their financial positions, rating from credit rating agencies, trading history, prevailing economic condition and the Group's internal rating criteria, etc. Certain trading partners' credit risk will also be managed by taking credit enhancement procedures when necessary.
- iii. If the Group's contract payments are past due over a certain number of days, a significant increase in credit risk on the instrument since recognition is considered to have occurred.
- iv. The Group follows the credit risk management process, when the debtor faces significant financial difficulties or is bankrupt, a breach of contract is considered to have occurred.
- v. The Group uses the following indicators to determine whether credit impairment of financial assets has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) Default or delinquency in interest of principal payments.
- vi. The Group classifies customers' accounts receivable in accordance with factors such as credit level, geographical location and industry. The Group applies the modified approach to estimate expected credit loss under the provision matrix basis.
- vii. The Group used the forecast ability to adjust historical and timely information to assess the default possibility of accounts receivable. As of March 31, 2024, December 31, 2023, and March 31, 2023, the provision matrix is as follows:

| | March 31, 2024 | | | | | | Total |
|------------------|----------------|-------------------------|---------------------|---------------------|----------------------|------------------------|----------|
| | Not past due | Within 30 days past due | 31-60 days past due | 61-90 days past due | 91-120 days past due | Over 121 days past due | |
| Group 1 | | | | | | | |
| Total book value | \$95,947 | \$ - | \$ - | \$ - | \$ - | \$ - | \$95,947 |
| Loss rate | 0% | 5% | 10% | 30% | 70% | 100% | |
| Loss allowance | - | - | - | - | - | - | - |
| Book value | \$95,947 | \$ - | \$ - | \$ - | \$ - | \$ - | \$95,947 |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| | Not past due | 121-150 days past due | 151-180 days past due | 181-270 days past due | 271-300 days past due | Over 301 days past due | Total |
|-------------------|--------------|-------------------------|-----------------------|-----------------------|-----------------------|------------------------|----------|
| Group 2 | | | | | | | |
| Total book value | \$ - | \$ - | \$ - | \$ - | \$ - | \$22,777 | \$22,777 |
| Loss rate | 0% | 5% | 10% | 30% | 70% | 100% | |
| Loss allowance | - | - | - | - | - | (22,777) | (22,777) |
| Book value | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| December 31, 2023 | | | | | | | |
| | Not past due | Within 30 days past due | 31-60 days past due | 61-90 days past due | 91-120 days past due | Over 121 days past due | Total |
| Group 1 | | | | | | | |
| Total book value | \$66,725 | \$ - | \$163 | \$ - | \$ - | \$ - | \$66,888 |
| Loss rate | 0% | 5% | 10% | 30% | 70% | 100% | |
| Loss allowance | - | - | (16) | - | - | - | (16) |
| Book value | \$66,725 | \$ - | \$147 | \$ - | \$ - | \$ - | \$66,872 |
| March 31, 2023 | | | | | | | |
| | Not past due | 121-150 days past due | 151-180 days past due | 181-270 days past due | 271-300 days past due | Over 301 days past due | Total |
| Group 2 | | | | | | | |
| Total book value | \$ - | \$ - | \$ - | \$ - | \$ - | \$21,866 | \$21,866 |
| Loss rate | 0% | 5% | 10% | 30% | 70% | 100% | |
| Loss allowance | - | - | - | - | - | (21,866) | (21,866) |
| Book value | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| March 31, 2023 | | | | | | | |
| | Not past due | Within 30 days past due | 31-60 days past due | 61-90 days past due | 91-120 days past due | Over 121 days past due | Total |
| Group 1 | | | | | | | |
| Total book value | \$77,307 | \$ 2,691 | \$ - | \$ - | \$ - | \$ - | \$79,998 |
| Loss rate | 0% | 5% | 10% | 30% | 70% | 100% | |
| Loss allowance | - | (135) | - | - | - | - | (135) |
| Book value | \$77,307 | \$2,556 | \$ - | \$ - | \$ - | \$ - | \$79,863 |
| March 31, 2023 | | | | | | | |
| | Not past due | 121-150 days past due | 151-180 days past due | 181-270 days past due | 271-300 days past due | Over 301 days past due | Total |
| Group 2 | | | | | | | |
| Total book value | \$ - | \$ - | \$ - | \$ - | \$ - | \$21,673 | \$21,673 |
| Loss rate | 0% | 5% | 10% | 30% | 70% | 100% | |
| Loss allowance | - | - | - | - | - | (21,673) | (21,673) |
| Book value | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

- viii. Movements in relation to the Group applying the modified approach to provide loss allowance for accounts receivable are as follows:

| | 2024 | 2023 |
|---|----------|----------|
| As of January 1 | \$21,882 | \$21,867 |
| Provision (reversal) of impairment loss | 895 | (59) |
| As of March 31 | \$22,777 | \$21,808 |

For the three months ended March 31, 2024 and 2023, impairment loss (gains) on accounts receivable from contracts with customers amounted to NT\$895 and (NT\$59), respectively.

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities.
- ii. The Group invests surplus cash in interest bearing demand deposits, time deposits, and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. As of March 31, 2024, December 31, 2023, and March 31, 2023, monetary positions held by the Group amounted to NT\$793,458, NT\$792,232, and NT\$886,521, respectively. It's predicted that these monetary positions can immediately produce cash flows to manage liquidity risk.
- iii. The Group uses cash, cash equivalents, high-liquidity securities and other contracts to maintain financial flexibility. The amounts disclosed in the following table are the undiscounted contractual cash flows.

| | <u>Less than 1 year</u> | <u>Between 1 and 2 years</u> | <u>Over 2 years</u> |
|---------------------------------------|-----------------------------|----------------------------------|-------------------------|
| March 31, 2024 | | | |
| Non-derivative financial liabilities: | | | |
| Accounts receivable | \$77,848 | \$ - | \$ - |
| Other receivables | 66,440 | - | - |
| Lease liabilities | 4,214 | 1,612 | - |
| | <u>Less than 1 year</u> | <u>Between 1 and 2 years</u> | <u>Over 2 years</u> |
| December 31, 2023 | | | |
| Non-derivative financial liabilities: | | | |
| Accounts receivable | \$73,676 | \$ - | \$ - |
| Other receivables | 81,954 | - | - |
| Lease liabilities | 4,108 | 2,622 | - |
| | <u>Less than 1 year</u> | <u>Between 1 and 2 years</u> | <u>Over 2 years</u> |
| March 31, 2023 | | | |
| Non-derivative financial liabilities: | | | |
| Accounts receivable | \$68,331 | \$ - | \$ - |
| Other receivables | 203,986 | - | - |
| Lease liabilities | 2,392 | 2,730 | - |

(3) Fair value information

- A. The different levels that valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Level 1: Market quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability. The Group's investment in equity instruments without active market is included in Level 3.

B. Financial instruments not measured at fair value:

The carrying amount of financial instruments not measured at fair value, including cash and cash equivalents, financial assets at amortized cost, accounts receivable, other receivables, refundable deposits (listed as "Other non-current assets"), accounts payable, other payable, and the book value of lease liabilities, are reasonable approximations of the fair value.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of nature, characteristics and risk of the assets is as follows:

(a) The related information of nature of the assets is as follows:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|------------------|----------------|----------------|------------------|
| <u>March 31, 2024</u> | | | | |
| Assets | | | | |
| <u>Recurring fair value measurement</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Equity securities | \$342,537 | \$ - | \$ - | \$342,537 |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity securities | - | - | 3,610 | 3,610 |
| | <u>\$342,537</u> | <u>\$ -</u> | <u>\$3,610</u> | <u>\$346,147</u> |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| <u>December 31, 2023</u> | | | | |
| Assets | | | | |
| <u>Recurring fair value measurement</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Equity securities | \$339,452 | \$ - | \$ - | \$339,452 |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Financial assets at fair value through other comprehensive income

| | | | | |
|-------------------|-----------|---------|---------|-----------|
| Equity securities | - | - | 3,529 | 3,529 |
| | \$339,452 | \$ - | \$3,529 | \$342,981 |
| | Level 1 | Level 2 | Level 3 | Total |

March 31, 2023**Assets**Recurring fair value measurement

Financial assets at fair value through profit or loss

| | | | | |
|-------------------|-----------|------|------|-----------|
| Equity securities | \$352,685 | \$ - | \$ - | \$352,685 |
|-------------------|-----------|------|------|-----------|

Financial assets at fair value through other comprehensive income

| | | | | |
|-------------------|-----------|------|---------|-----------|
| Equity securities | - | - | 5,332 | 5,332 |
| | \$352,685 | \$ - | \$5,332 | \$358,017 |

- (b) The methods and assumptions the Group used to measure fair value are as follows:
- i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

| | |
|---------------------|----------------------|
| | <u>Listed shares</u> |
| Market quoted price | Closing price |

- ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet.
- iii. For financial instruments with high complexity, the Group measures the fair value using a self-developed valuation model based on the valuation methods and techniques widely adopted by other companies within the same industry. This type of valuation model is usually applied to derivative financial instruments, debt instruments of embedded derivatives, or securitized products. Some inputs used in this type of valuation model are information that cannot be observed in the market, and the Group must make reasonable estimated based on hypotheses. For the effects that the unobservable input have on the valuation of financial instruments, refer to Note 12(3)H.

- D. For the three-month periods ended March 31, 2024 and 2023, there was no transfer between Level 1 and Level 2.
- E. The movement of Level 3 for the three-month periods ended March 31, 2024 and 2023

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

are as follows:

| | 2024 | 2023 |
|--|--------------------------------------|--------------------------------------|
| | Non-derivative equity instruments | Non-derivative equity instruments |
| As of January 1 | \$3,529 | \$6,206 |
| Gains (losses) recognized in other comprehensive income | 81 | (874) |
| As of March 31 | <u>\$3,610</u> | <u>\$5,332</u> |

- F. For the three-month periods ended March 31, 2024 and 2023, there was no transfer into or out from Level 3.
- G. The finance division is in charge of valuation procedures for fair value measurement being categorized within Level 3, which is to verify independent fair value of financial instruments. The assessment is based on actuarial reports by external experts. Such an assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price. It's also for making regular adjustments to the valuation model, backtesting, updating inputs used to the model and making any other necessary adjustments to the fair value.
- H. Qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to the valuation model used in Level 3 fair value measurement is as follows:

| | Fair value on March 31, 2024 | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship between inputs and fair value |
|--------------------------------------|---------------------------------------|------------------------|--|--------------------------------|---|
| Non-derivative equity instrument: | | | | | |
| Unlisted shares | \$3,610 | Market approach | Price-to-sales ratio | 1.69 | The higher the multiple, the higher the fair value |
| | | | Discount for lack of marketability | 21.25% | The higher the discount for lack of marketability, the lower the fair value |
| | Fair value on December 31, 2023 | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship between inputs and fair value |
| Non-derivative equity instrument: | | | | | |
| Unlisted shares | \$3,529 | Market approach | Price-to-sales ratio | 1.33 | The higher the multiple, the higher the fair value |
| | | | Discount for lack of marketability | 25% | The higher the discount for lack of marketability, the lower the fair value |

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

| | Fair value on March 31, 2023 | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship between inputs and fair value |
|--------------------------------------|------------------------------------|-------------------------------------|--|--------------------------------|---|
| Non-derivative equity instrument: | | | | | |
| Unlisted shares | \$5,332 | Market and income approach | Discount for lack of marketability and minority interest discount | 45% | The higher the discount for lack of marketability, the lower the fair value |

- I. The Group has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, the use of different valuation models or assumptions may result in different measurements. The following is the effect of profit or loss or other comprehensive income from financial assets and liabilities categorized within Level 3 if the inputs used to valuation models have changed:

| | | March 31, 2024 | | | | | |
|--------------------|--|-------------------|--------|---------------------------------|-----------------------|---|-----------------------|
| | | | | Recognized in profit or loss | | Recognized in other comprehensive income | |
| | | Input | Change | Favorable change | Unfavorable change | Favorable change | Unfavorable change |
| Financial assets | | | | | | | |
| Equity instruments | Price-to-sales ratio | ±10% | \$ - | \$ - | \$361 | (\$361) | |
| | | December 31, 2023 | | | | | |
| | | | | Recognized in profit or loss | | Recognized in other comprehensive income | |
| | | Input | Change | Favorable change | Unfavorable change | Favorable change | Unfavorable change |
| Financial assets | | | | | | | |
| Equity instrument | Price-to-sales ratio | ±10% | \$ - | \$ - | \$353 | (\$353) | |
| | | March 31, 2023 | | | | | |
| | | | | Recognized in profit or loss | | Recognized in other comprehensive income | |
| | | Input | Change | Favorable change | Unfavorable change | Favorable change | Unfavorable change |
| Financial assets | | | | | | | |
| Equity instrument | Discount for lack of marketability and minority interest discount | ±10% | \$ - | \$ - | \$533 | (\$533) | |

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 March 31, 2024: None
- B. Endorsement/guarantee provided to others as of March 31, 2024: None
- C. Securities held as of March 31, 2024 (excluding those of subsidiaries, associates and jointly controlled entities): Please refer to Attachment 1.
- D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital as of March 31, 2024: None
- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital as of March 31, 2024: None.
- F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital as of March 31, 2024: None.
- G. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the paid-in capital as of March 31, 2024: 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 March 31, 2024: None
- I. Financial instruments and derivative transactions: None.
- J. Others: The business relationships and significant transactions and amounts between the Company and subsidiaries, and among subsidiaries as of March 31, 2024: Please refer to Attachment 2.

(2) Information on investees

Relevant information of investee company name, locations, etc., over which the Group has direct or indirect significant influence or control: Please refer to Attachment 3.

(3) Investment in Mainland China

- A. Information of investee company name, main businesses, total paid-in capital, method of investment, accumulated inflows and outflows of investments from Taiwan, percentage

RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

of ownership, investment income (loss), carrying amount of investments, accumulated inward remittance of earnings and limits on investment in Mainland China: Please refer to Attachment 4.

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

(4) Information of major shareholders

The name, holding amount and ownership percentage of shareholders holding more than 5% of the Company's shares as of March 31, 2024: Please refer to Attachment 5.

14. Segment Information

(1) General information

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

(2) Segment information

The Group assesses the performance of the operating segments based on the income after tax. The assessment standard excluded the effect capital expenditure has on the operating segments.

(3) Reconciliation for segment profit (loss)

For segment information provided to the main operating decision-makers, please refer to the consolidated balance sheet and consolidated statement of comprehensive income.

English Translation of Financial Statements Originally Issued in Chinese
RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
SECURITIES HELD (EXCLUDING INVESTMENT IN SUBSIDIARIES, AFFILIATES AND JOINTLY CONTROLLED ENTITIES)
As of March 31, 2024

Attachment 1

(Amount in thousands of New Taiwan Dollars)

| Company name of holder | Security type and name | Relationship with securities issuers | Financial statement account | March 31, 2024 | | | | |
|-------------------------------------|---|---|---|---------------------|--------------------|-------------------------------------|------------|----------|
| | | | | Number of shares | Carrying amount | Percentage of ownership (Note 1) | Fair value | Footnote |
| Rafael Microelectronics, Inc. | Common Shares – Fubon Financial Holdings Co., Ltd. | None | Financial assets at fair value through profit or loss- current | 82,037 | \$5,718 | - | \$5,718 | |
| | Class B Preferred Share – Fubon Financial Holdings Co., Ltd. | None | Financial assets at fair value through profit or loss- current | 1,952,000 | 117,120 | - | 117,120 | |
| | Class C Preferred Share – Fubon Financial Holdings Co., Ltd. | None | Financial assets at fair value through profit or loss- current | 2,543,262 | 139,371 | - | 139,371 | |
| | Preferred Share B – China Development Financial Holding Corp. | None | Financial assets at fair value through profit or loss- current | 4,830,000 | 36,563 | - | 36,563 | |
| | Preferred Share B – CTBC Financial Holding Co., Ltd. | None | Financial assets at fair value through profit or loss- current | 727,000 | 43,765 | - | 43,765 | |
| | Common Shares – BKS TEC Corp. | None | Financial assets at fair value through other comprehensive income - non-current | 6,000,000 | 3,610 | 11.07% | 3,610 | |

Note: The percentage of shares held does not exceed 5%, therefore it is not disclosed.

English Translation of Financial Statements Originally Issued in Chinese
RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
THE BUSINESS RELATIONSHIP AND SIGNIFICANT TRANSACTIONS BETWEEN THE PARENT AND SUBSIDIARIES
For the three months ended March 31, 2024

Attachment 2

(Amounts in thousands of New Taiwan Dollars)

| No. (Note 1) | Company name | Counter party | Relationship (Note 2) | Intercompany transaction | | | Percentage of consolidated total sales or total assets (Note 3) |
|-----------------|-------------------------------------|--|--------------------------|---------------------------|---------|-------------------------|--|
| | | | | Accounts | Amount | Transaction terms | |
| 0 | Rafael Microelectronics, Inc. | ShenZhen Rafael Microsystems, Inc. Rafael | 1 | Consign research expenses | \$7,804 | Based on contract terms | 3% |
| 0 | | Microelectronics Korea | 1 | Consign service expenses | 1,279 | Based on contract terms | 1% |

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

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

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

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

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

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 three months ended March 31, 2024**

Attachment 3

(Amounts in thousands of New Taiwan Dollars, USD)

| Investor company | Investee company | Location | Main businesses | Original investment amount | | Balance as of March 31, 2024 | | | Net income (loss) of investee | Investment income (loss) recognized | Note |
|-------------------------------|-------------------------------|------------|------------------------|----------------------------|-------------------|------------------------------|-------------------------|-----------------|-------------------------------|-------------------------------------|----------|
| | | | | Ending balance | Beginning balance | Number of shares | Percentage of ownership | Carrying amount | | | |
| Rafael Microelectronics, Inc. | Han Tang Co., Ltd. | Seychelles | General Investing | \$22,617 | \$22,617 | 707,000 | 100% | \$19,758 | \$(706) | \$(706) | Note 1 |
| | Rafael Microelectronics Korea | Korea | Promote RF IC products | 2,844 | 2,844 | 200,000 | 100% | 3,992 | 492 | 492 | Note 2 |
| Han Tang Co., Ltd. | HONG YU CO., LTD. | Seychelles | General Investing | 22,537 | 22,537 | 704,500 | 100% | 20,324 | (706) | - | Note 3,4 |

Note 1: The original investment amount is converted from the investment amount (USD 707 thousand) based on the exchange rate of 31.99 on March 31, 2024.

Note 2: The original investment amount is converted from the investment amount (USD 89 thousand) based on the exchange rate of 31.99 on March 31, 2024.

Note 3: The original investment amount is converted from the investment amount (USD 705 thousand) based on the exchange rate of 31.99 on March 31, 2024.

Note 4: Has already been included in the Company's measurement of investee companies' profit (loss) for the period through the equity method, and is recognized in the Company's investment income (loss).

English Translation of Financial Statements Originally Issued in Chinese
RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
INFORMATION ON INVESTMENT IN MAINLAND CHINA
For the three months ended March 31, 2024

Attachment 4

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

| Mainland China investee company | Main businesses | Paid-in capital | Investment method (Note 1) | Accumulated outflow of investment from Taiwan as of January 1, 2024 | Investment flows | | Accumulated outflow of investment from Taiwan as of March 31, 2024 | Net income (loss) of the investee company | Direct or indirect percentage of ownership | Investment income (loss) recognized | Carrying amount as of March 31, 2024 | Accumulated inward remittance of earnings as of March 31, 2024 | Note | |
|--|--|-----------------|----------------------------|---|---|--------|--|---|--|-------------------------------------|--------------------------------------|--|-----------------|--|
| | | | | | Outflow | Inflow | | | | | | | | |
| ShenZhen Rafael Microsystems, Inc. | Technical consultation and services for RF IC products | \$11,197 | 2 | \$11,197 | \$ - | \$ - | \$11,197 | \$(541) | 100% | \$(541) | \$13,378 | \$ - | Note 2, 5, 9 | |
| Rafael Semiconductors, Inc. | Design, development, sales, technical consultation and services for optical fiber products | 22,544 | 2 | 11,131 | - | - | 11,131 | (336) | 49% | (165) | 6,087 | - | Note 2, 6, 7, 9 | |
| Rafael Semiconductors, Inc. | Design and sell RF IC products | 4,058 | 2 | 4,058 | - | - | 4,058 | (8) | 100% | (8) | 4,061 | - | Note 2, 8, 10 | |
| Accumulated outflow of investment from Taiwan to Mainland China as of March 31, 2024 | | | | | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) (Note 3) | | | | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 4) | | | | | |
| Rafael Microelectronics, Inc. | | | | | \$26,806 | | | | \$26,806 | | | \$858,386 | | |

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.
- (3) Other methods.

Note 2: The investment income (loss) is recognized in financial statements that were not audited by the Taiwanese parent company's chartered public account.

Note 3: The investment amount approved by the Investment Commission of MOEA (USD 838 thousand) is converted based on the exchange rate of 31.99 on March 31, 2024.

Note 4: The ceiling on investments in Mainland China imposed by the Investment Commission of MOEA is the higher of 60% of the Company's net worth or consolidated net worth.

Note 5: The paid-in capital is converted from the investment amount (USD 350 thousand) based on the exchange rate of 31.99 on March 31, 2024.

Note 6: The paid-in capital of RMB 5,000 thousand is converted based on the exchange rate 4.5088 on March 31, 2024.

Note 7: The investment amount of USD 348 thousand is converted based on the exchange rate of 31.99 on March 31, 2024.

Note 8: The paid-in capital is converted from the investment amount (RMB 900 thousand) based on the exchange rate of 4.5088 on March 31, 2024.

Note 9: 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.

Note 10: 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 in ShenZhen Rafael Microsystems, Inc., who invests in this company.

English Translation of Financial Statements Originally Issued in Chinese
RAFAEL MICROELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
INFORMATION ON MAJOR SHAREHOLDERS
For the three months ended March 31, 2024

Attachment 5

| | Shares | |
|----------------------------|-----------------------|---------------|
| Name of major shareholder | Number of shares held | Ownership (%) |
| Flexium Interconnect, Inc. | 9,221,976 | 30% |

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 for clients which was set by the trustee. As for the shareholder who reports share equity as an insider whose shareholding ratio greater than 10% in accordance with the 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 the Market Observation Post System.