

CIPHERLAB CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements and

Independent Auditors' Report

For the Years Ended December 31, 2025 and 2024

Address: 12F, 333, Dunhua S. Rd., Sec. 2, Taipei, Taiwan

Tel: (02)86471166

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

§TABLE OF CONTENTS§

ITEM	PAGE	NOTE NUMBER
I. Cover	1	-
II. Table of Contents	2	-
III. Declaration of Consolidated Financial Statement of Affiliates	3	-
IV. Independent Auditors' Report	4~7	-
V. Consolidated Balance Sheets	8	-
VI. Consolidated Statement of Comprehensive Income	9~10	-
VII. Consolidated Statement of Changes in Equity	11	-
VIII. Consolidated Statement of Cash Flows	12~13	-
IX. Notes to Consolidated Financial Statements		
(1) Company History	14	1
(2) Approval Date and Procedures of the Consolidated Financial Statements	14	2
(3) Application of New Standards, Amendments and Interpretations	14~16	3
(4) Summary of Significant Accounting Policies	16~26	4
(5) Critical Accounting Judgment and Major Source of Estimation Uncertainty	26~27	5
(6) Explanation of Significant Accounts	27~53	6~27
(7) Related Party Transactions	54	28
(8) Assets Pledged as Security	55	29
(9) Significant Contingent Liabilities and Unrecognized Commitment	55	30
(10) Loss Due to Major Disasters	-	-
(11) Major Subsequent Events	-	-
(12) Others	55~56	31
(13) Other Disclosures		
1. Information on Significant Transactions	56~57, 60~62	32
2. Information on Investees	57, 63	32
3. Information on Investments in Mainland China	57, 64	32
4. Information on Major Shareholders	57~59	33

Declaration of Consolidated Financial Statement of Affiliates

We hereby declare that the entities required to be included in the consolidated financial statements of affiliates for the year ended December 31, 2025, prepared by the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as those included in the consolidated financial statement prepared in conformity with the International Financial Reporting Standards No. 10. All relevant information that should be disclosed in the consolidated financial statements of affiliate has all been disclosed in the consolidated financial statements. Hence, we will not provide a separate set of consolidated financial statement of affiliates.

CIPHERLAB CO., LTD.

Chairman: Liao, Yi-Yan

March 11, 2026

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of CipherLab Co., Ltd.:

Audit Opinion

We have audited the accompanying consolidated balance sheets of CipherLab Co., Ltd. and its subsidiaries (hereinafter “the consolidated company”), as of December 31, 2025 and 2024; the related consolidated statement of comprehensive income, the consolidated statement of changes in equities, and the consolidated statement of cash flows for the period of January 1 to December 31, 2025 and 2024; and notes to the consolidated financial statements (including a summary of significant accounting policies).

In our opinion, the accompanying consolidated financial statements in all material respects, are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers; and present equitably the consolidated financial status of the consolidated company as of December 31, 2025 and 2024 and its consolidated financial performance and cash flows from January 1 to December 31, 2025 and 2024.

Basis for Opinion

We have conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under these terms and conditions will be further elaborated in the section of the Auditors' Responsibilities for the Audit of the Financial Statement in this report. Abiding by The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, we have maintained objective and are independent of the consolidated company, and have fulfilled these ethical standards and other responsibilities. We believe that we have obtained sufficient and appropriate evidence as to the basis for our audit opinions.

Key Audit Matters

The key audit matter refers to the most important content in our audit of the consolidated company's consolidated financial statements for the year 2025 based on our professional judgment. These matters have been addressed in the process of our audit of the consolidated financial statements and in forming of the audit opinions, and we will not provide any additional view on these matters discretely.

The followings are the key audit matters for the consolidated company's consolidated financial statements for the year 2025:

Key Audit Matter: Authenticity of Sales Revenue Recognition for Specific Products

The sales revenue from specific products of CipherLab Group for the year 2025 had a significant impact on the consolidated financial statements. In addition, when management is under pressure to meet market expectations or desires to maximize performance-based rewards, they may use sales turnover to achieve their objectives. Given that sales revenue from specific products is significant, the primary risk is whether such revenue has actually occurred. Therefore, the auditors have identified the authenticity of sales revenue from specific products as a key audit matter.

For the accounting policy on the revenue, please refer to Note 4 (11) of the consolidated financial statements.

The auditors understood and tested the design and operating effectiveness of internal controls relevant to sales revenue recognition. The auditors also selected appropriate samples from the sales revenue details of the aforementioned specific products and inspected sales orders and export declarations, as well as verified whether the payers and the transaction counterparties were consistent, in order to confirm that there were no material misstatements in the sales revenue.

Other Matters

We have also audited CipherLab Co., Ltd.'s parent company only financial statements for the year ended December 31, 2025 and 2024, on which we have issued an unqualified opinion.

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

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

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

Those charged with governance, including the audit committee, are responsible for overseeing the consolidated company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the consolidated company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the consolidated company's audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated company's consolidated financial statements for the year ended December 31, 2025 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte & Touche

Accountant Chang, Keng-Hsi

Accountant Yu, Meng-Kuei

Securities and Futures Administration
Commission R.O.C (Taiwan) Approved
MOF Securities No. 0920123784

Financial Supervisory Commission R.O.C.
(Taiwan) Approved
FSC Securities Review No. 1130357402

March 30, 2026

CIPHERLAB CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2025 and 2024

In Thousands of New Taiwan Dollars

Code	Assets	December 31, 2025		December 31, 2024	
		Amount	%	Amount	%
	Current assets				
1100	Cash (Note 4 & 6)	\$ 101,159	9	\$ 129,690	11
1110	Financial assets at fair value through profit or loss – current (Note 4 & 7)	47,008	4	9,760	1
1136	Financial assets at amortized cost (Note 4 & 29)	2,500	-	1,500	-
1150	Notes receivable (Note 4, 8 & 20)	-	-	228	-
1170	Accounts receivable (Note 4, 8 & 20)	194,823	18	189,117	16
1200	Other receivables (Note 4 & 8)	5,911	1	6,635	1
1220	Current tax assets (Note 4 & 22)	175	-	5,959	-
130X	Inventories (Note 4, 5 & 9)	439,219	41	539,289	45
1479	Other current assets (Note 14)	48,395	5	43,864	4
11XX	Total current assets	<u>839,190</u>	<u>78</u>	<u>926,042</u>	<u>78</u>
	Non-current assets				
1600	Property, plant and equipment (Note 4, 11 & 29)	108,385	10	120,304	10
1755	Right-of-use assets (Note 4 & 12)	25,189	3	48,917	4
1780	Intangible assets (Note 4 & 13)	1,497	-	1,794	-
1840	Deferred tax assets (Note 4, 5 & 22)	84,846	8	87,910	7
1990	Other non-current assets (Note 4 & 14)	13,721	1	8,691	1
15XX	Total non-current assets	<u>233,638</u>	<u>22</u>	<u>267,616</u>	<u>22</u>
1XXX	Total assets	<u>\$ 1,072,828</u>	<u>100</u>	<u>\$ 1,193,658</u>	<u>100</u>
	Liabilities and equity				
	Current liabilities				
2100	Short-term borrowings (Note 4, 15 & 29)	\$ 168,000	16	\$ 130,000	11
2130	Contract liabilities – current (Note 4 & 20)	44,267	4	63,271	5
2150	Notes payable (Note 16)	43	-	-	-
2170	Accounts payable (Note 16 & 28)	43,245	4	59,225	5
2219	Other payables (Note 17)	83,059	8	92,562	8
2280	Lease liabilities – current (Note 4 & 12)	10,072	1	27,999	2
2399	Other current liabilities	3,570	-	3,212	-
21XX	Total current liabilities	<u>352,256</u>	<u>33</u>	<u>376,269</u>	<u>31</u>
	Non-current liabilities				
2527	Contract liabilities – non-current (Note 4 & 20)	44,194	4	46,028	4
2570	Deferred tax liabilities (Note 4 & 22)	6,828	1	6,775	1
2580	Lease liabilities – non-current (Note 4 & 12)	18,955	2	24,899	2
2640	Net defined benefit liability – non-current (Note 4 & 18)	4,747	-	6,081	-
2645	Guarantee deposits received	-	-	6,458	1
25XX	Total non-current liabilities	<u>74,724</u>	<u>7</u>	<u>90,241</u>	<u>8</u>
2XXX	Total liabilities	<u>426,980</u>	<u>40</u>	<u>466,510</u>	<u>39</u>
	Equity attributable to owners of parent company (Note 19)				
3110	Ordinary share capital	684,891	64	684,891	58
3210	Capital surplus	1,151	-	1,151	-
	(accumulated deficit) Retained earnings				
3310	Legal reserve	37,124	4	73,869	6
3320	Special reserve	-	-	867	-
3350	Accumulated deficit	(80,972)	(8)	(37,612)	(3)
3300	Total (accumulated deficit) retained earnings	<u>(43,848)</u>	<u>(4)</u>	<u>37,124</u>	<u>3</u>
	Other equity				
3410	Exchange differences on translation of foreign financial statements	4,879	-	6,426	-
3420	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	(2,180)	-	(2,180)	-
3400	Total other equity interest	<u>2,699</u>	<u>-</u>	<u>4,246</u>	<u>-</u>
31XX	Total equity interest attributable to owners of parent company	<u>644,893</u>	<u>60</u>	<u>727,412</u>	<u>61</u>
36XX	Non-controlling interest	<u>955</u>	<u>-</u>	<u>(264)</u>	<u>-</u>
3XXX	Total equity interest	<u>645,848</u>	<u>60</u>	<u>727,148</u>	<u>61</u>
	Total liabilities and equity	<u>\$ 1,072,828</u>	<u>100</u>	<u>\$ 1,193,658</u>	<u>100</u>

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

Chairman : Liao, Yi-Yan

Manager : Liao, Yi-Yan

Accounting : Chang, Chia-Jung

CIPHERLAB CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

January 1 to December 31, 2025 and 2024

In Thousands of New Taiwan Dollars
Except Losses per Share

Code		2025		2024	
		Amount	%	Amount	%
4000	Operating revenues (Note 4 & 20)	\$ 1,191,580	100	\$ 1,294,440	100
5000	Operating costs (Note 9, 21 & 28)	(725,618)	(61)	(790,580)	(61)
5900	Operating profit margin	465,962	39	503,860	39
	Operating expenses (Note 21)				
6100	Selling expenses	(301,738)	(25)	(271,343)	(21)
6200	Administrative expenses	(69,263)	(6)	(71,026)	(6)
6300	Research and development expenses	(168,524)	(14)	(217,988)	(17)
6450	Impairment loss determined in accordance with IFRS 9 (Note 8)	(420)	-	(943)	-
6000	Total operating expenses	(539,945)	(45)	(561,300)	(44)
6900	Net operating loss	(73,983)	(6)	(57,440)	(5)
	Non-operating income and expenses (Note 21)				
7100	Interest income	1,446	-	1,222	-
7010	Other income (Note 24)	3,144	-	1,276	-
7020	Other gains and losses	(3,173)	-	13,515	1
7050	Financial costs (Note 4)	(4,560)	(1)	(4,593)	-
7000	Total non-operating income and expenses	(3,143)	(1)	11,420	1
7900	Loss before tax	(77,126)	(7)	(46,020)	(4)
7950	Income tax (expense) benefit (Note 4 & 22)	(3,328)	-	6,973	1
8200	Loss for the year	(80,454)	(7)	(39,047)	(3)

(Continue)

(Previous)

Code		2025		2024	
		Amount	%	Amount	%
	Other comprehensive income (Note 4, 18, 19 & 22)				
8310	Items not to be reclassified into profit or loss:				
8311	Remeasurements of defined benefit plans	\$ 876	-	\$ 1,864	-
8349	Income tax related to items that will not be reclassified to profit or loss	(175)	-	(373)	-
8360	Items that may be reclassified to profit or loss:				
8361	Exchange differences in translation of financial statements of foreign operations	(1,933)	-	6,391	-
8399	Income tax related to items that will be reclassified to profit or loss	<u>386</u>	<u>-</u>	<u>(1,278)</u>	<u>-</u>
8300	Total other comprehensive income (after tax)	<u>(846)</u>	<u>-</u>	<u>6,604</u>	<u>-</u>
8500	Total comprehensive income	<u>(\$ 81,300)</u>	<u>(7)</u>	<u>(\$ 32,443)</u>	<u>(3)</u>
	Loss attributable to:				
8610	Owners of parent company	(\$ 81,673)	(7)	(\$ 39,103)	(3)
8620	Non-controlling interests	<u>1,219</u>	<u>-</u>	<u>56</u>	<u>-</u>
8600		<u>(\$ 80,454)</u>	<u>(7)</u>	<u>(\$ 39,047)</u>	<u>(3)</u>
	Comprehensive income attributable to:				
8710	Owners of parent company	(\$ 82,519)	(7)	(\$ 32,499)	(3)
8720	Non-controlling interests	<u>1,219</u>	<u>-</u>	<u>56</u>	<u>-</u>
8700		<u>(\$ 81,300)</u>	<u>(7)</u>	<u>(\$ 32,443)</u>	<u>(3)</u>
	Losses per share (Note 23)				
9710	Basic	<u>(\$ 1.19)</u>		<u>(\$ 0.57)</u>	

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

Chairman : Liao, Yi-Yan

Manager : Liao, Yi-Yan

Accounting : Chang, Chia-Jung

CIPHERLAB CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

January 1 to December 31, 2025 and 2024

In Thousands of New Taiwan Dollars

		Equities attributable to owners of parent company					Other Equity				
		(Accumulated Deficit) Retained Earnings					Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Total	Non-controlling interests	Total equity
Code		Ordinary share capital	Capital surplus	Legal reserve	Special reserve	Accumulated deficit					
A1	Balance at January 1, 2024	\$ 684,891	\$ 1,151	\$ 77,998	\$ 1,084	(\$ 4,346)	\$ 1,313	(\$ 2,180)	\$ 759,911	(\$ 320)	\$ 759,591
	Making up losses of 2023 (Note 19)										
B13	Making up losses by legal reserve	-	-	(4,129)	-	4,129	-	-	-	-	-
B17	Reversal of special reserve	-	-	-	(217)	217	-	-	-	-	-
D1	Net loss of 2024	-	-	-	-	(39,103)	-	-	(39,103)	56	(39,047)
D3	Other comprehensive income (after tax) of 2024 (Note 19)	-	-	-	-	1,491	5,113	-	6,604	-	6,604
D5	Total comprehensive income of 2024	-	-	-	-	(37,612)	5,113	-	(32,499)	56	(32,443)
Z1	Balance at December 31, 2024	684,891	1,151	73,869	867	(37,612)	6,426	(2,180)	727,412	(264)	727,148
	Making up losses of 2024 (Note 19)										
B13	Making up losses by legal reserve	-	-	(36,745)	-	36,745	-	-	-	-	-
B17	Reversal of special reserve	-	-	-	(867)	867	-	-	-	-	-
D1	Net loss of 2025	-	-	-	-	(81,673)	-	-	(81,673)	1,219	(80,454)
D3	Other comprehensive income (after tax) of 2025 (Note 19)	-	-	-	-	701	(1,547)	-	(846)	-	(846)
D5	Total comprehensive income of 2025	-	-	-	-	(80,972)	(1,547)	-	(82,519)	1,219	(81,300)
Z1	Balance at December 31, 2025	<u>\$ 684,891</u>	<u>\$ 1,151</u>	<u>\$ 37,124</u>	<u>\$ -</u>	<u>(\$ 80,972)</u>	<u>\$ 4,879</u>	<u>(\$ 2,180)</u>	<u>\$ 644,893</u>	<u>\$ 955</u>	<u>\$ 645,848</u>

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

Chairman : Liao, Yi-Yan

Manager : Liao, Yi-Yan

Accounting : Chang, Chia-Jung

CIPHERLAB CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
January 1 to December 31, 2025 and 2024

Code	In Thousands of New Taiwan Dollars	
	2025	2024
Cash flows from operating activities		
A10000	Loss before tax	(\$ 77,126) (\$ 46,020)
A20010	Adjustments to reconcile profit (loss)	
A20100	Depreciation expenses	45,131 42,900
A20200	Amortization expenses	2,144 3,099
A20300	Expected credit impairment loss	420 943
A20400	Losses (gains) on financial assets at	
	fair value through profit or loss	(617) 240
A20900	Financial costs	4,560 4,593
A21200	Interest income	(1,446) (1,222)
A22500	Losses on disposal of property,	
	plant, and equipment	- 133
A23700	Inventory valuation and	
	obsolescence losses	5,548 4,481
A24100	Unrealized foreign exchange gains	(316) (2,981)
A30000	Changes in operating assets and liabilities	
A31115	Financial assets mandatorily	
	measured at fair value through	
	profit or loss	(36,631) (10,000)
A31130	Notes receivable	228 2,257
A31150	Accounts receivable	(13,877) (12,079)
A31180	Other receivables	740 22,527
A31200	Inventories	93,082 (9,193)
A31240	Other current assets	(4,753) 268
A32125	Contract liabilities	(19,489) 15,995
A32130	Notes payable	43 -
A32150	Accounts payable	(16,027) (65,236)
A32180	Other payables	(5,718) (5,662)
A32220	Other current liabilities	358 (593)
A32240	Net defined benefit liabilities	(458) (421)
A33000	Cash flows from operations	(24,204) (55,971)
A33100	Interest received	1,445 1,222
A33500	Income taxes refund (paid)	<u>6,134</u> (<u>77</u>)
AAAA	Net cash used in operating activities	<u>(16,625)</u> (<u>54,826</u>)

(Continue)

(Previous)

Code		2025	2024
	Cash flows from investing activities		
B00040	Increase in financial assets at amortized cost	(\$ 1,000)	\$ -
B07100	Increase in prepayments for business equipment	(6,806)	(7,552)
B02700	Acquisition of property, plant and equipment	(7,624)	(9,623)
B04500	Acquisition of intangible assets	(1,266)	(852)
B03700	Increase in refundable deposits	(<u>658</u>)	(<u>419</u>)
BBBB	Net cash flows used in investing activities	(<u>17,354</u>)	(<u>18,446</u>)
	Cash flows from financing activities		
C00100	Increase in short-term borrowings	38,000	50,000
C01700	Repayment for long-term borrowings	-	(3,278)
C04020	Repayment of lease liabilities	(27,359)	(26,223)
C05600	Interest paid	(<u>4,456</u>)	(<u>4,628</u>)
CCCC	Net cash generated from financing activities	<u>6,185</u>	<u>15,871</u>
DDDD	Effect of exchange rate changes on cash and cash equivalents	(<u>737</u>)	<u>4,321</u>
EEEE	Net decrease in cash and cash equivalents	(28,531)	(53,080)
E00100	Cash and cash equivalents at beginning of the year	<u>129,690</u>	<u>182,770</u>
E00200	Cash and cash equivalents at end of the year	<u>\$ 101,159</u>	<u>\$ 129,690</u>

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

Chairman: Liao, Yi-Yan

Manager: Liao, Yi-Yan

Accounting: Chang, Chia-Jung

CIPHERLAB CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

January 1 to December 31, 2025 and 2024

(In thousands of New Taiwan Dollar, Unless Stated Otherwise)

1. COMPANY HISTORY

- (1) CIPHERLAB CO., LTD. (hereinafter referred to as “the Company,” the Company and entities controlled by the Company, hereinafter referred to as the “consolidated company”) was established in October 1988 with the approval of the Ministry of Economic Affairs and officially started business operations in June 1989. The Company specializes in manufacturing and selling various computer-related products, such as peripheral equipment, electronic cash registers, barcode scanners, magnetic card readers, electronic measuring instruments, and software programs. They also provide services for skincare products, import and export trade, and acting as domestic and foreign manufacturers' agents for distribution. In addition, the Company is involved in importing and manufacturing telecommunications control radio frequency equipment.
- (2) The Company’s stocks have been listed on the OTC market through Taipei Exchange for trading since March 1, 2002.
- (3) The Company does not have an ultimate parent entity or ultimate financial controller due to the shareholding dispersion.
- (4) The consolidated financial statements are expressed in New Taiwan dollars, the company's functional currency.

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issuance by the Board of Directors on March 11, 2026.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

- (1) Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, “IFRS accounting standards”) endorsed and issued into effect by the Financial Supervisory Commission (FSC).

The Group has assessed that the application of the IFRSs endorsed and issued into effect by the FSC will not result in significant changes to the Group’s accounting policies.

- (2) IFRS accounting standards applicable for the year 2026 and endorsed by the Financial Supervisory Commission

<u>New/Revised/Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB</u>
Amendments to IFRS 9 and IFRS 7 "Classification and Measurement of Financial Instruments"	January 1, 2026
Amendments to IFRS 9 and IFRS 7 "Contracts for Renewable Electricity"	January 1, 2026

<u>New/Revised/Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB</u>
"Annual Improvements to IFRS Accounting Standards — Volume 11"	January 1, 2026
IFRS 17 "Insurance Contracts" (including the 2020 and 2021 amendments)	January 1, 2023

As of the date the consolidated financial statements were authorized for issue, the Group has assessed that the amendments to the aforementioned standards and interpretations will not have a material impact on the Group's financial position and financial performance.

- (3) IFRS accounting standards issued by the IASB but not yet endorsed and issued into effect by the FSC

<u>New/Revised/Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB (Note 1)</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 18 "Presentation and Disclosure in Financial Statements"	January 1, 2027 (Note 2)
IFRS 19 "Subsidiaries without Public Accountability: Disclosures" (including the 2025 amendments)	January 1, 2027
Amendments to IAS 21 "Translation to a Hyperinflationary Presentation Currency"	January 1, 2027

Note 1: Unless otherwise stated, the aforementioned newly issued/amended/revised standards or interpretations shall be effective for annual reporting periods beginning on or after their respective dates.

Note 2: On September 25, 2025, the Financial Supervisory Commission (FSC) announced that enterprises in Taiwan shall adopt IFRS 18 starting from January 1, 2028. Early adoption is also permitted after the FSC has officially endorsed the standard.

IFRS 18 "Presentation and Disclosure in Financial Statements" and related consequential amendments

IFRS 18 will replace IAS 1 "Presentation of Financial Statements." The primary changes include:

- The Group shall assess whether it has specified main business activities, such as investing in specific types of assets or providing financing to customers. Based on this assessment, income and expenses in the statement of profit or loss are classified into five categories: operating, investing, financing, income taxes, and discontinued operations.
- The statement of profit or loss shall present subtotals for operating profit or loss, profit or loss before financing and income tax, and relevant totals and subtotals of profit or loss.
- Guidance is provided to enhance requirements for aggregation and disaggregation: The Group must identify assets, liabilities, equity, income, expenses, and cash flows

arising from individual transactions or other events, and classify and aggregate them based on shared characteristics. This ensures that each line item presented in the primary financial statements possesses at least one similar characteristic. Items with dissimilar characteristics shall be disaggregated in the primary financial statements and notes. The Group shall label items as "Other" only when a more informative label cannot be identified.

- Disclosure of Management-defined Performance Measures (MPMs): When the Group communicates management's views on an aspect of the Group's overall financial performance publicly outside of financial statements, it shall disclose information regarding MPMs in a single note. This disclosure includes a description of the measure, its calculation methodology, a reconciliation to the most directly comparable subtotal or total specified by IFRS Accounting Standards, and the effects of income taxes and non-controlling interests on the reconciling items.
- When the Group prepares cash flows from operating activities using the indirect method, operating profit or loss shall be used as the starting point for reconciliation.
- Interest and dividends received by the Group shall be classified as investing activities, while interest and dividends paid shall be classified as financing activities. If the Group assesses that it has specified main business activities, it must consider the categories in which dividend income, interest income, and interest expense are presented in the statement of profit or loss to determine the classification of dividends received, interest received, and interest paid in the statement of cash flows. However, each of these cash flows can only be classified within a single category in the statement of cash flows.

Apart from the aforementioned impacts, as of the date the consolidated financial statements were authorized for issue, the Group is continuing to evaluate the other impacts of the amendments to the standards and interpretations on its financial position and financial performance. The relevant impacts will be disclosed upon completion of the evaluation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of Compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS accounting standards as endorsed and issued into effect by the FSC.

(2) Basis of Preparation

The financial statements have been prepared based on the historical cost except for financial instruments measured at fair values and the defined benefit liability recognized by the present value of the defined benefit obligation minus the fair value of the plan assets.

The fair value measurements are classified into levels 1 to 3 based on the observation level and significance of the inputs:

- A. Level 1 inputs: the quoted price (unadjusted) in active markets for identical assets or liabilities at the date of measurement.
 - B. Level 2 inputs: observable inputs of the direct (i.e. as prices) or indirect (i.e. derive from prices) for assets or liabilities other than quoted prices of Level 1.
 - C. Level 3 inputs: unobservable inputs for the assets or liabilities.
- (3) Standard for Classification of Current and Non-current Assets and Liabilities

Current assets include:

- A. Assets held primarily for the purpose of trading;
- B. Assets expected to be realized within 12 months after the date of balance sheet; and
- C. Cash (excluding assets restricted from being exchanged or used to settle a liability exceed 12 months after the date of balance sheet).

Current liabilities include:

- A. Liabilities held primarily for the purpose of trading;
- B. Liabilities due to be settled within 12 months after the date of the balance sheet; and
- C. The consolidated company does not have the substantive right at the balance sheet date to defer settlement of the liability for at least twelve months after the balance sheet date.

Assets and liabilities that cannot be classified as listed above should be classified as non-current.

(4) Basis of Consolidation

The consolidated financial statements include the financial statements of the consolidated company and the individual entities (the subsidiaries) in control of the consolidated company. The financial statements of the subsidiaries have been adjusted so that its accounting policy is in accordance with the consolidated company. All intra-entity transactions, account balance, profit, and loss are eliminated in full when preparing the consolidated financial statements. The total consolidated comprehensive income of the subsidiaries is attributed to the owners of the consolidated company and non-controlling interests even if it causes the deficit balance.

For the detailed information about subsidiaries, including the percentage of ownership and main business, please refer to Note 10, Table 4 and Table 5 as attached.

(5) Foreign Currencies

In preparing the financial statements of the consolidated company, transactions in currencies other than the consolidated company's functional currency (foreign currencies) are recognized at the rates of exchange prevailing on the dates of the transactions.

Monetary items denominated in foreign currencies are retranslated at the closing rates prevailing on the date of the balance sheet. Exchange differences arising on the settlement of monetary items or on translating monetary items shall be recognized in the profit or loss in the period in which they arise.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

In preparing the financial report, the assets and liabilities of the foreign operating (Including the Company's subsidiaries that operate in countries with different functional currencies) are converted to NTD at the exchange rate on the date of the balance sheet. The income and expense items are converted at the average exchange rate of the period, and the resulting exchange differences are included in other comprehensive income (and attributable respectively to the Company's owners and non-controlling interest).

(6) Inventory

Inventories consist of raw materials and finished goods and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost.

(7) Property, Plant, and Equipment

Property, plant, and equipment are measured at cost, less recognized accumulated depreciation and accumulated impairment loss.

Except for freehold land which is not depreciated, the depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If their respective lease terms are shorter than their useful lives, such assets are depreciated over their lease terms. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

(8) Intangible Assets

A. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

B. Derecognition

When derecognizing an intangible asset, the difference between the net disposal proceeds and the asset's carrying amount is recognized in the profit or loss for the year.

(9) Impairment of the Property, Plant and Equipment and Intangible Assets

At the end of each reporting period, the consolidated company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount

of an individual asset, the consolidated company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to individual cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount (less amortization and depreciation), but only to the extent of the carrying amount that would have been determined with no impairment loss having been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

(10) Financial Instruments

Financial assets and financial liabilities are recognized in the consolidated balance sheet when the consolidated company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

A. Financial Assets

The regular way purchases or sales of financial assets is recognized and derecognized on a trade date.

(I) Measurement category

Categories of financial assets held by the consolidated company are financial assets measured at fair value through profit or loss, financial assets measured at amortized cost and equity instrument investments measured at fair value through other comprehensive income.

a. Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss (FVTPL) include those mandatorily measured at FVTPL. Financial assets mandatorily measured at FVTPL include investments in equity instruments that are not designated as at fair value through other comprehensive income (FVTOCI).

Financial assets at fair value through profit or loss are measured at fair value. And the remeasurement gains or losses (excluding any dividends

or interests arising from the financial assets) are recognized in profit or loss. Please refer to Note 27 for the determination of fair value.

b. Financial assets measured at amortized cost

Financial assets of the consolidated company, in compliance with the following two conditions simultaneously, are to be classified as financial assets measured by amortized cost:

- i. The financial asset is held under a business model for which the objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized costs after initial recognition are measured at amortized cost and equal the total of the carrying amount determined by the effective interest method less any impairment loss. Any difference in foreign currency exchange is recognized in profit or loss.

Except for the following two cases, the interest income is calculated as the effective interest rate multiplied by the total carrying amount of financial assets:

- i. Interest income of purchase or originated credit-impaired financial assets is calculated as the credit-adjusted effective interest rate multiplied by the amortized cost of the financial assets;
- ii. Interest income of the financial assets that are not classified as purchased or originated credit-impaired, but subsequently become credit-impaired, should be calculated from the next reporting period after the credit impairment as the effective interest rate multiplied by the financial asset at amortized cost.

A financial asset is credit-impaired when the issuer or the borrower has significant financial difficulties and breach contract; it becomes probable that the borrower might enter bankruptcy or other financial reorganization, or have the active market for that financial asset disappeared due to financial difficulties.

c. Investments in equity instruments measured at fair value through other comprehensive income

The consolidated company can make an irrevocable election at initial recognition to designate the non-held for trading and not recognized as business mergers or investments in equity instruments be measured at fair value through other comprehensive income.

Investments in equity instruments carried at fair value through other comprehensive income are measured at fair value. Subsequent changes in fair value are recognized in other comprehensive income and accumulated in other equity. Accumulated profit or loss will directly transfer to retained earnings but not reclassified to profit or loss when disposing of the investment.

The dividends of the investments in equity instruments measured at fair value through other comprehensive income are recognized in profit or loss when the consolidated company has confirmed its right of receivables, unless the dividends are clearly a recoverable amount of the investment cost.

(II) Impairment of financial assets

The consolidated company shall evaluate, with the expected credit loss, the impairment loss of the financial assets measured at amortized cost, including accounts receivable, on each balance sheet date.

Accounts receivables are recorded as loss allowance by expected credit losses in the duration. For other financial assets, it shall evaluate whether the credit risk has increased significantly since the initial recognition. If the credit risk hasn't increased significantly, the financial assets shall be recognized as loss allowance based on a 12-month expected credit loss. However, if the credit risk has increased significantly, the financial assets will be recognized as loss allowance by the expected credit loss in the duration.

Expected credit loss takes the risk of default as the weighted average credit loss. 12-month expected credit loss is the expected credit loss of possible violation of the financial instrument within 12 months after the reporting date. Expected credit loss in the duration is the expected credit loss of possible violation of the financial instrument in the duration.

For the purpose of internal credit risk management, the consolidated company, without considering the collateral held, determines that the following conditions represent a default in financial assets:

- a. There is internal or external information indicating that it is unlikely that the borrower will pay off the debt.
- b. An overdue payment of more than 90 days; unless there is reasonable and corroborated information showing that the delayed default is more appropriate.

The carrying amount of all financial assets with impairment loss are adjusted and reduced through the use of an allowance account.

(III) Derecognition of financial assets

The consolidated company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to other enterprise.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at fair value through other comprehensive income, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

B. Equity Instruments

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted under equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue, or cancellation of the Company's own equity instruments.

C. Financial Liabilities

(I) Subsequent measurement

All financial liabilities are measured at amortized cost by the effective interest method.

(II) Derecognition of financial liabilities

When derecognizing the financial liabilities, the difference between the carrying amount derecognized and the consideration paid, (including any non-cash asset transferred or liabilities assumed), is recognized in profit or loss.

(11) Revenue Recognition

Upon confirming with the customers in regards to the contractual obligations, the consolidated company allocates the transaction price to the performance obligations and recognizes the revenue when the performance obligations are satisfied.

A. Sale of Goods

Revenue from the sale of products is derived from the sales of handheld industrial computers and handheld barcode scanners. Revenue and accounts receivable are recognized when the products are delivered according to the agreed-upon trade terms, at which point the customer has the right to set prices and use the products, bears the primary responsibility for resale, and assumes the risks of obsolescence. Advances received from product sales are recognized as contract liabilities before the products are transferred.

The Company does not recognize revenue on outward processing because it does not involve a transfer of control over the processed products.

B. Rendering of Service

Service revenue is derived from product repair services and warranty services. Revenue from product repair services is recognized when the services are completed. For warranty services provided by the Company, since the customer simultaneously receives and consumes the benefits provided by the Company's performance, revenue from warranty services is recognized over time.

(12) Lease

The consolidated company evaluates whether the contract is (or contains) a lease on the date of the establishment of the contract.

The consolidated company as lessee

Except for the exempted low-value asset leases and short-term leases, the lease payments are recognized as expenses during the lease term on a straight-line basis. For other leases, the right-of-use assets and lease liabilities are recognized on the lease start date.

The right-of-use asset is initially measured at cost (including the original measured amount of the lease liability, the lease payment paid before the lease start date less the lease incentive received, the original direct cost, and the estimated cost of recovering the underlying asset). Subsequently, the right-of-use asset is measured with a deduction of accumulated depreciation and the amount after the accumulated impairment loss is determined, and the remeasurement of the lease liability is adjusted. Right-of-use assets are presented separately on the balance sheet.

Depreciation of right-of-use asset is recognized on a straight-line basis from the beginning of the lease over the shorter of the useful life of the asset and the lease term.

Lease liabilities are initially measured at the present value (including fixed payments, actual fixed payments, variable lease payments which depend on an index or a rate, expected payables by the consolidated company under residual value guarantees, the exercise price of a purchase option if the consolidated company is reasonably certain to exercise that option, and the lease termination penalties reflected in the lease terms, less any lease incentives) of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the consolidated company uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense allocated over the lease term. If there are changes in future lease payments resulting from a change in the lease term, the expected amount payable under a residual value guarantee, the assessment of an option to purchase the underlying asset, or a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. For lease modifications that are not accounted for as a separate lease, the remeasurement of the lease liability resulting from a decrease in the scope of the lease is accounted for by

decreasing the carrying amount of the right-of-use assets and recognizing any gain or loss relating to the partial or full termination of the lease; remeasurements of lease liabilities resulting from other modifications are accounted for as adjustments to the right-of-use assets. Lease liabilities are presented separately in the parent company only balance sheets.

(13) Borrowing Costs

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

(14) Government Grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants related to revenue intended to compensate for the costs incurred by the consolidated company over the period are recognized in other income.

When the consolidated company receives government grants as compensation for expenses or losses that have already been incurred or to provide immediate financial support with no future related costs, these grants are recognized as the profit or loss during the period in which the grants can be collected.

(15) Employee Benefits

A. Short-term Employee Benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

B. Retirement Benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service costs (including current service costs) and net interest on the net defined benefit liability, are recognized as employee benefits expenses in the period they occur. Remeasurement, (comprising actuarial gains and losses and the return on plan assets less interest), is recognized in the period in which they occur in other comprehensive income which is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities represent the consolidated company's actual defined benefit plan deficit.

(16) Income Tax

Income tax expense represents the sum of the current income tax and the deferred tax.

A. Current tax

Income tax payable (refundable) is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

According to the Income Tax Act of the ROC, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

B. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the consolidated company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are recognized only to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

C. Current and deferred taxes

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGEMNT AND MAJOR SOURCE OF ESTIMATION UNCERTAINTY

In the application of the consolidated company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

When the consolidated company develops significant accounting estimates, inflation and market interest rate fluctuations are taken into considerations of significant accounting estimates, and forecast to cash flows, growth rate, discount rate, and profitability, etc., are also taken into consideration of significant accounting estimates. The management will continuously review estimates and basic assumptions.

Main sources of uncertainty in estimates and assumptions

(1) Impairment of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

(2) Income tax

The possibility of realizing deferred income tax assets is primarily determined by whether there will be sufficient profits or taxable temporary differences in the future. Suppose the actual profit falls short of expectations. In that case, there may be significant reversals of deferred income tax assets, which are recorded as profit or loss during the period they occur.

6. CASH

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Cash on hand & revolving fund	\$ 142	\$ 112
Checking accounts	20,125	33,977
Demand deposits	<u>80,892</u>	<u>95,601</u>
	<u>\$ 101,159</u>	<u>\$ 129,690</u>

Cash equivalent market interest rate for the above interest-bearing financial assets at the date of the balance sheet is as follows:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Bank deposit	0.005%~0.725%	0.005%~1.00%

7. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
<u>Financial assets – current</u>		
Mandatorily measured at fair value through profit or loss		
Non-derivative financial assets		
Beneficiary certificates of funds	\$ <u>47,008</u>	\$ <u>9,760</u>

8. NOTES RECEIVABLE, ACCOUNTS RECEIVABLES, AND OTHER RECEIVABLES

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
<u>Notes receivable</u>		
Measurement at amortized costs		
Total carrying amount	\$ -	\$ 228
Less: loss allowance	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 228</u>
 <u>Accounts receivable</u>		
Measurement at amortized costs		
Total carrying amount	\$ 196,279	\$ 190,163
Less: loss allowance	(<u>1,456</u>)	(<u>1,046</u>)
	<u>\$ 194,823</u>	<u>\$ 189,117</u>
 <u>Other receivables</u>		
Tax refund receivable	\$ 4,844	\$ 6,496
Receivables for Outward processing	944	9
Others	<u>123</u>	<u>130</u>
	<u>\$ 5,911</u>	<u>\$ 6,635</u>

(1) Notes receivable

The Company recognizes an allowance for impairment loss on notes receivable based on lifetime expected credit losses (ECLs). Lifetime ECLs are determined by considering the customers' past default records and current financial positions, as well as GDP forecasts. As of December 31, 2025 and 2024, there were no past due notes receivable, and the Company has assessed that no allowance for expected credit losses is required for notes receivable.

(2) Accounts receivable

The revenue arising from sales of goods is collected monthly with average credit period of 15~120 days. In order to minimize credit risk, the management of the consolidated company has appointed a team responsible for the determination of credit limit, credit approval and other monitoring procedures to ensure that proper action is taken for recovery of overdue debts. In addition, the consolidated company reviews the recoverable amount of the overdue notes and accounts receivable on the balance sheet date to ensure that adequate allowances are made for the irrecoverable amounts. In this regard, the management believes that the credit risk of the consolidated company has been significantly reduced.

The consolidated company recognizes the loss allowance for notes and accounts receivable based on lifetime expected credit losses. The lifetime expected credit losses are measured by the customers' past default records and the current financial situation using a provision matrix and also considering the GDP forecast. According to the consolidated company's past experience of credit losses, there is no significant difference in the loss patterns for different customer entities. Thus, the expected credit loss rate is determined solely by the number of overdue days for the receivables.

If there is evidence indicating that a counterparty is facing serious financial difficulties and the consolidated company cannot reasonably estimate the recoverable amount, the consolidated company will write off the related notes and accounts receivable, but continue with recourse. The amount recovered due to recourse is recognized in profit or loss.

The consolidated company's loss allowance for the receivables is estimated using a provision matrix as follows:

December 31, 2025

	Not past due	1-30 days overdue	31-60 days overdue	61-90 days overdue	91-120 days overdue	120 days overdue	Total
Expected credit loss rate	0.02%~0.42%	0.10%~5.17%	1.28%~25.23%	5.05%~100%	100%	100%	
Total carrying amount	\$ 169,306	\$ 23,911	\$ 1,808	\$ 296	\$ 473	\$ 485	\$ 196,279
Loss allowance (Lifetime ECL)	(146)	(74)	(24)	(254)	(473)	(485)	(1,456)
Amortized cost	<u>\$ 169,160</u>	<u>\$ 23,837</u>	<u>\$ 1,784</u>	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 194,823</u>

December 31, 2024

	Not past due	1-30 days overdue	31-60 days overdue	61-90 days overdue	91-120 days overdue	120 days overdue	Total
Expected credit loss rate	0.00%~6.35%	0.05%~12.61%	1.40%~11.65%	5.78%~100%	100%	100%	
Total carrying amount	\$ 156,407	\$ 30,252	\$ 1,922	\$ 1,301	\$ 94	\$ 187	\$ 190,163
Loss allowance (Lifetime ECL)	(509)	(108)	(41)	(107)	(94)	(187)	(1,046)
Amortized cost	<u>\$ 155,898</u>	<u>\$ 30,144</u>	<u>\$ 1,881</u>	<u>\$ 1,194</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 189,117</u>

Changes in loss allowance for accounts receivable are as follows:

	<u>2025</u>	<u>2024</u>
Balance at the beginning of the year	\$ 1,046	\$ 206
Add: impairment losses recognized in current year	420	943
Less: amount written off	-	(120)
Exchange difference in foreign currencies	(10)	17
Balance at the end of the year	<u>\$ 1,456</u>	<u>\$ 1,046</u>

(3) Accounts receivable

Other receivables recorded by the Company primarily consist of receivables from consigned processing materials, tax refunds receivable, and others. The Company's policy is to engage in transactions only with creditworthy counterparties. The Company continuously monitors and refers to the counterparties' past default records and analyzes their current financial positions to evaluate whether the credit risk of other receivables has increased significantly since initial recognition and to measure expected credit losses. As of December 31, 2025 and 2024, the Company has assessed that no allowance for expected credit losses is required for other receivables.

9. INVENTORY

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Finished goods	\$ 19,486	\$ 16,217
Work in process	6,331	15,876
Raw materials	380,757	464,703
Merchandise	<u>32,645</u>	<u>42,493</u>
	<u>\$ 439,219</u>	<u>\$ 539,289</u>

For the years ended December 31, 2025 and 2024, the cost of goods sold related to inventories amounted to NT\$723,998 thousand and NT\$788,597 thousand, respectively.

The cost of goods sold for the years ended December 31, 2025 and 2024 included loss on inventory valuation and obsolescence in the amounts of NT\$5,548 thousand and NT\$4,481 thousand, respectively.

10. SUBSIDIARIES

(1) Subsidiaries included in the consolidated financial statements

The consolidated entities of the consolidated financial report were as follows:

Investor company	Subsidiaries	Main business	Percentage of ownership		Note
			Dec. 31, 2025	Dec. 31, 2024	
The Company	CIPHERLAB USA, INC.	Electronics sales	100	100	The main business risk is foreign currency risk
"	CIPHERLAB LIMITED (SAMOA)	Investment holding	100	100	The main business risk is foreign currency risk
"	MPLUS TECHNOLOGY CO., LTD. (MPLUS TECHNOLOGY)	Development and sales of electronic products	95	95	The main business risk is foreign currency risk
CIPHERLAB LIMITED (SAMOA)	CIPHERLAB ELECTRONICS TRADING (SHANGHAI) CO., LTD. (CipherLab (Shanghai))	Electronics sales	100	100	The main business risks are political risks and foreign currency risks due to government orders and cross-strait relations

- A. CIPHERLAB LIMITED (SAMOA) was established on May 29, 2006 by the relevant laws and regulations of Samoa.
- B. CipherLab (Shanghai) was established in Shanghai on November 15, 2006, with an approved operating period from November 15, 2006, to November 14, 2036. In January 2025, CipherLab (Shanghai) implemented a cash capital reduction of USD 350 thousand and completed the registration for the change in share capital.
- C. CIPHERLAB USA, INC. was approved and established in the USA on January 11, 2007.
- D. MPLUS TECHNOLOGY was incorporated in the Republic of China on May 19, 2016, following its approved establishment.

(2) Subsidiaries included in the consolidated financial statements: None.

11. PROPERTY, PLANT, AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Molding equipment	Transport ation	Income-ge nerating equipment	Other equipment	Total
<u>Cost</u>								
Balance as of January 1, 2025	\$57,996	\$55,493	\$14,827	\$257,854	\$1,409	\$86,573	\$ 235	\$474,387
Additions	-	-	-	2,366	-	1,787	-	4,153
Disposals	-	-	(224)	(532)	-	(2,525)	-	(3,281)
Reclassification (Note)	-	-	-	1,711	-	124	-	1,835
Net exchange difference	_____	_____	_____	_____	(____58)	(____53)	(____5)	(____116)
Balance as of December 31, 2025	<u>\$57,996</u>	<u>\$55,493</u>	<u>\$14,603</u>	<u>\$261,399</u>	<u>\$1,351</u>	<u>\$85,906</u>	<u>\$ 230</u>	<u>\$476,978</u>
<u>Accumulated depreciation</u>								
Balance as of January 1, 2025	\$ -	\$26,435	\$14,332	\$234,495	\$1,409	\$77,211	\$ 201	\$354,083
Depreciation expenses	-	991	111	12,853	-	3,939	7	17,901
Disposals	-	-	(224)	(532)	-	(2,525)	-	(3,281)
Net exchange difference	_____	_____	_____	_____	(____58)	(____47)	(____5)	(____110)
Balance as of December 31, 2025	<u>\$ -</u>	<u>\$27,426</u>	<u>\$14,219</u>	<u>\$246,816</u>	<u>\$1,351</u>	<u>\$78,578</u>	<u>\$ 203</u>	<u>\$368,593</u>
Net balance as of December 31, 2025	<u>\$57,996</u>	<u>\$28,067</u>	<u>\$ 384</u>	<u>\$14,583</u>	<u>\$ -</u>	<u>\$7,328</u>	<u>\$ 27</u>	<u>\$108,385</u>
<u>Cost</u>								
Balance as of January 1, 2024	\$57,996	\$55,493	\$15,852	\$243,798	\$1,320	\$105,310	\$ 223	\$479,992
Additions	-	-	-	7,979	-	1,686	-	9,665
Disposals	-	-	(1,025)	-	-	(21,388)	-	(22,413)
Reclassification (Note)	-	-	-	6,077	-	872	-	6,949
Net exchange difference	_____	_____	_____	_____	____89	____93	____12	____194
Balance as of December 31, 2024	<u>\$57,996</u>	<u>\$55,493</u>	<u>\$14,827</u>	<u>\$257,854</u>	<u>\$1,409</u>	<u>\$86,573</u>	<u>\$ 235</u>	<u>\$474,387</u>
<u>Accumulated depreciation</u>								
Balance as of January 1, 2024	\$ -	\$25,444	\$15,246	\$224,549	\$1,320	\$93,260	\$ 184	\$360,003
Depreciation expenses	-	991	111	9,946	-	5,123	7	16,178
Disposals	-	-	(1,025)	-	-	(21,255)	-	(22,280)
Net exchange difference	_____	_____	_____	_____	____89	____83	____10	____182
Balance as of December 31, 2024	<u>\$ -</u>	<u>\$26,435</u>	<u>\$14,332</u>	<u>\$234,495</u>	<u>\$1,409</u>	<u>\$77,211</u>	<u>\$ 201</u>	<u>\$354,083</u>
Net balance as of December 31, 2024	<u>\$57,996</u>	<u>\$29,058</u>	<u>\$ 495</u>	<u>\$23,359</u>	<u>\$ -</u>	<u>\$9,362</u>	<u>\$ 34</u>	<u>\$120,304</u>

Note: Reclassified from other non-current assets – prepayments for business facilities, to property, plant, and equipment.

Related depreciation is calculated on a straight-line basis over the estimated useful lives as follows:

Buildings	55 years
Machinery and equipment	2~10 years
Molding equipment	1~5 years
Transportation	5 years
Income-generating equipment	2~6 years
Other equipment	3~5 years

No impairment losses were recognized or reversed for the years ended December 31, 2025 and 2024.

Property, plant, and equipment pledged as collateral for bank borrowings are set out in Note 29.

12. LEASE ARRANGEMENT

(1) Right-of-use assets

	<u>Buildings</u>	<u>Transportation</u>	<u>Total</u>
<u>Cost</u>			
Balance as of January 1, 2025	\$ 78,655	\$ 4,025	\$ 82,680
Additions	2,585	1,679	4,264
Reductions	(3,187)	(1,162)	(4,349)
Net exchange difference	(1,327)	-	(1,327)
Balance as of December 31, 2025	<u>\$ 76,726</u>	<u>\$ 4,542</u>	<u>\$ 81,268</u>
<u>Accumulated depreciation</u>			
Balance as of January 1, 2025	\$ 33,046	\$ 717	\$ 33,763
Depreciation expenses	26,024	1,206	27,230
Reductions	(3,187)	(1,162)	(4,349)
Net exchange difference	(565)	-	(565)
Balance as of December 31, 2025	<u>\$ 55,318</u>	<u>\$ 761</u>	<u>\$ 56,079</u>
Net Balance as of December 31, 2025	<u>\$ 21,408</u>	<u>\$ 3,781</u>	<u>\$ 25,189</u>

	<u>Buildings</u>	<u>Transportation</u>	<u>Total</u>
<u>Cost</u>			
Balance as of January 1, 2024	\$ 73,407	\$ 3,334	\$ 76,741
Additions	43,596	3,578	47,174
Reductions	(40,389)	(2,887)	(43,276)
Net exchange difference	<u>2,041</u>	<u>-</u>	<u>2,041</u>
Balance as of December 31, 2024	<u>\$ 78,655</u>	<u>\$ 4,025</u>	<u>\$ 82,680</u>
<u>Accumulated depreciation</u>			
Balance as of January 1, 2024	\$ 47,217	\$ 2,310	\$ 49,527
Depreciation expenses	25,428	1,294	26,722
Reductions	(40,389)	(2,887)	(43,276)
Net exchange difference	<u>790</u>	<u>-</u>	<u>790</u>
Balance as of December 31, 2024	<u>\$ 33,046</u>	<u>\$ 717</u>	<u>\$ 33,763</u>
Net Balance as of December 31, 2024	<u>\$ 45,609</u>	<u>\$ 3,308</u>	<u>\$ 48,917</u>

(2) Lease liabilities

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Carrying amount of lease liabilities		
Current	<u>\$ 10,072</u>	<u>\$ 27,999</u>
Non-current	<u>\$ 18,955</u>	<u>\$ 24,899</u>

The range of the discount rates for lease liabilities is as follows:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Buildings	1.850% ~ 5.500%	1.375% ~ 5.500%
Transportation	1.853% ~ 1.890%	1.167% ~ 1.853%

(3) Lease-in activities and terms

The consolidated company leases certain buildings and transportation equipment with lease terms of 2 to 12 years. The consolidated company does not have bargain purchase options to acquire the leasehold buildings and transportation equipment at the end of the lease terms.

(4) Other lease information

	<u>2025</u>	<u>2024</u>
Expenses relating to low-value asset leases	(<u>\$ 150</u>)	(<u>\$ 207</u>)
Expenses relating to short-term leases	(<u>\$ 165</u>)	(<u>\$ 116</u>)
Total cash outflow for leases	(<u>\$ 29,178</u>)	(<u>\$ 28,353</u>)

The Group has elected to apply the recognition exemptions for short-term leases of buildings and transportation equipment, and leases of low-value assets for office equipment. For these leases, the Group does not recognize the related right-of-use assets and lease liabilities.

All lease commitments where the lease term commences after the balance sheet date are as follows:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Lease Commitments	<u>\$ 800</u>	<u>\$ -</u>

13. INTANGIBLE ASSETS

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Computer software	<u>\$ 1,497</u>	<u>\$ 1,794</u>
	<u>2025</u>	<u>2024</u>
<u>Cost</u>		
Balance at the beginning of the year	\$ 13,114	\$ 22,397
Separate acquisition	1,266	852
Disposals	(3,016)	(10,139)
Reclassification (Note)	581	-
Net exchange difference	(6)	4
Balance at the end of the year	<u>\$ 11,939</u>	<u>\$ 13,114</u>
<u>Accumulated amortization and impairment</u>		
Balance at the beginning of the year	\$ 11,320	\$ 18,356
Amortization expenses	2,144	3,099
Disposals	(3,016)	(10,139)
Net exchange difference	(6)	4
Balance at the end of the year	<u>\$ 10,442</u>	<u>\$ 11,320</u>
Net Balance at the end of the year	<u>\$ 1,497</u>	<u>\$ 1,794</u>

Note: Reclassified from other non-current assets — prepayments for equipment to intangible assets.

Amortization expenses of computer software are calculated on a straight-line basis over the estimated useful lives of 1~6 years.

14. OTHER ASSETS

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
<u>Current</u>		
Prepayments	<u>\$48,395</u>	<u>\$43,864</u>
<u>Non-current</u>		
Guarantee deposits paid	\$ 7,107	\$ 6,449
Prepayment for equipment	<u>6,614</u>	<u>2,242</u>
	<u>\$ 13,721</u>	<u>\$ 8,691</u>

15. SHORT-TERM BORROWINGS

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
<u>Unsecured loans</u>		
Line of credit	<u>\$ 118,000</u>	<u>\$ 130,000</u>
<u>Secured loans</u>		
Mortgage	<u>\$ 50,000</u>	<u>\$ -</u>

The interest rates on short-term borrowings as of December 31, 2025 and 2024 were 1.88%~1.95% and 1.96%~2.0%, respectively.

16. ACCOUNTS PAYABLE

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
<u>Notes Payable</u>		
Arising from operations	<u>\$ 43</u>	<u>\$ -</u>
<u>Accounts payable</u>		
Arising from operations	<u>\$ 43,245</u>	<u>\$ 59,225</u>

17. OTHER PAYABLES

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Processing expense payable	\$ 23,593	\$ 29,264
Salaries and bonus payable	22,864	21,454
Payables on testing	4,532	4,063
Payables on equipment	975	4,446
Others	<u>31,095</u>	<u>33,335</u>
	<u>\$ 83,059</u>	<u>\$ 92,562</u>

18. RETIREMENT CONTRIBUTION PLAN

(1) Defined contribution plan

The pension system under the "Labor Pension Act" applicable to the Company and MPLUS TECHNOLOGY CO., LTD. is a government-administered defined contribution plan, under which the Company and its subsidiary contribute 6% of employees' monthly salaries to individual accounts at the Bureau of Labor Insurance.

CipherLab (Shanghai) also contributes a specific percentage of the total monthly salaries of its local employees to a pension management entity.

(2) Defined benefit plan

The pension system under the "Labor Standards Act" applicable to the Company is a government-administered defined benefit plan. The payment of employee pensions is calculated based on the years of service and the average salary of the six months prior to

the approved retirement date. The Company contributes 2% of the total monthly salaries of its employees to a pension fund, which is deposited in a dedicated account at the Bank of Taiwan in the name of the Supervisory Committee of Workers' Retirement Preparation Fund. Before the end of each year, if the balance in the account is estimated to be insufficient to pay the employees who are expected to meet the retirement conditions in the following year, the Company will contribute the difference in a single payment by the end of March of the following year. The account is entrusted to the Bureau of Labor Funds, Ministry of Labor for management, and the Company has no influence over the investment management strategy.

The amount of the defined benefit plans presented in the consolidated balance sheet is as follows:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Present value of defined benefit obligation	\$ 24,910	\$ 25,201
Fair value of planned assets	(<u>20,163</u>)	(<u>19,120</u>)
Net defined benefit liability	<u>\$ 4,747</u>	<u>\$ 6,081</u>

Changes on net defined benefit liabilities are as follows:

	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liabilities</u>
Balance as of January 1, 2025	<u>\$ 25,201</u>	(<u>\$ 19,120</u>)	<u>\$ 6,081</u>
Service cost			
Current service cost	34	-	34
Interest expense (income)	<u>404</u>	(<u>310</u>)	<u>94</u>
Recognized in profit or loss	<u>438</u>	(<u>310</u>)	<u>128</u>
Remeasurement			
Return on planned assets (excluding the amount included in the net interest)	-	(1,315)	(1,315)
Actuarial losses — changes in financial assumptions	593	-	593
Actuarial gains — experience adjustments	(<u>154</u>)	<u>-</u>	(<u>154</u>)
Recognized in other comprehensive income	<u>439</u>	(<u>1,315</u>)	(<u>876</u>)
Contribution from the employer	<u>-</u>	(<u>586</u>)	(<u>586</u>)
Benefits paid	(<u>1,168</u>)	<u>1,168</u>	<u>-</u>
Balance as of December 31, 2025	<u>\$ 24,910</u>	(<u>\$ 20,163</u>)	<u>\$ 4,747</u>

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Balance as of January 1, 2024	<u>\$ 26,008</u>	<u>(\$ 17,642)</u>	<u>\$ 8,366</u>
Service cost			
Current service cost	34	-	34
Interest expense (income)	<u>338</u>	<u>(233)</u>	<u>105</u>
Recognized in profit or loss	<u>372</u>	<u>(233)</u>	<u>139</u>
Remeasurement			
Return on planned assets (excluding the amount included in the net interest)	-	<u>(1,530)</u>	<u>(1,530)</u>
Actuarial gains — changes in financial assumptions	<u>(643)</u>	-	<u>(643)</u>
Actuarial losses — experience adjustments	<u>309</u>	<u>-</u>	<u>309</u>
Recognized in other			
comprehensive income	<u>(334)</u>	<u>(1,530)</u>	<u>(1,864)</u>
Contribution from the employer	<u>-</u>	<u>(560)</u>	<u>(560)</u>
Benefits paid	<u>(845)</u>	<u>845</u>	<u>-</u>
Balance as of December 31, 2024	<u>\$ 25,201</u>	<u>(\$ 19,120)</u>	<u>\$ 6,081</u>

The amount recognized in profit or loss in respect of the defined benefit plan is summarized by function as follows:

	<u>2025</u>	<u>2024</u>
Operating costs	\$ 63	\$ 74
Selling expenses	43	42
Administrative expenses	15	16
Research and development expenses	<u>7</u>	<u>7</u>
	<u>\$ 128</u>	<u>\$ 139</u>

Due to the pension system under the “Labor Standards Act”, the consolidated company is exposed to the following risks:

- A. Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets shall not be below the interest rate for a 2-year time deposit with local banks.

- B. Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the debt investments of the plan assets.
- C. Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations are as follows:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Discount rate	1.300%	1.600%
Expected rate of salary increase	3.000%	3.000%

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation will increase (decrease) as follows:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Discount rate		
Increased by 0.25%	(<u>\$ 504</u>)	(<u>\$ 546</u>)
Decreased by 0.25%	<u>\$ 521</u>	<u>\$ 564</u>
Expected rate of salary increase		
Increased by 0.25%	<u>\$ 499</u>	<u>\$ 543</u>
Decreased by 0.25%	(<u>\$ 486</u>)	(<u>\$ 528</u>)

The sensitivity analysis presented above may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that changes in assumptions will occur in isolation of one another as some of the assumptions may be correlated.

The analysis of the average maturity of defined benefit obligations is as follows:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Expected contributions to the plans for the next year	<u>\$ 586</u>	<u>\$ 560</u>
Average duration of the defined benefit obligation	8 years	9 years

19. EQUITY

(1) Ordinary shares

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Authorized shares (in thousands of shares)	<u>90,000</u>	<u>90,000</u>
Authorized capital	<u>\$ 900,000</u>	<u>\$ 900,000</u>
Number of shares issued and fully paid (in thousands of shares)	<u>68,489</u>	<u>68,489</u>
Capital issued	<u>\$ 684,891</u>	<u>\$ 684,891</u>

The par value of each ordinary share issued is NT\$10, and each share possesses one voting right and a right to receive dividends.

(2) Capital surplus

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (A)</u>		
Additional paid-in capital	\$ 1,062	\$ 1,062
<u>May only be used to offset a deficit</u>		
Unclaimed dividends (B)	<u>89</u>	<u>89</u>
	<u>\$ 1,151</u>	<u>\$ 1,151</u>

A. Such capital surplus may be used to offset a deficit. In the case when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital limited to a certain percentage of the Company's capital surplus once a year.

B. According to the letter No. 10602420200 issued by the Ministry of Economic Affairs on September 21, 2017, unclaimed dividends should be recognized as capital reserves.

(3) Retained earnings and dividends policy

Suppose the consolidated company made a profit in a fiscal year. In that case, the profit shall be first utilized for paying taxes, offsetting accumulated losses of previous years, and setting aside as legal reserve 10% of the remaining profit by the laws and regulations except when the legal reserve has reached the company's paid-in capital. The rest shall be setting aside or reversing a special reserve; any remaining profit together with any undistributed retained earnings shall be used by the consolidated company's board of directors as the basis for proposing a distribution plan, which should be resolved in the

shareholder's meeting for distribution of dividends and bonus to shareholders. For the policies on the distribution of employees' compensation and directors' remuneration, refer to Note 21-7.

The Company's dividend policy evaluates the Company's future capital requirement, long-term financial planning, and shareholders' profit expectations. The actual distribution of share dividends should be accounted for not less than 50% of the distributable earnings of the current year. The company is in the steady growth stage with consistent profit increases and a solid financial structure. While maintaining a stable profit per share, the cash dividends shall account for at least 10% of the total dividends.

The statutory surplus reserve can be used to offset losses. When the company has no losses, the portion of the statutory surplus reserve exceeding 25% of the total paid-in capital may be allocated as share capital and can also be distributed as cash.

The Company set aside special reserve for the net accumulated deductions in other equity interests, only for the portion of the unappropriated earnings of prior periods.

The proposal of making up losses of 2023 has been resolved by the regular shareholders meeting on June 26, 2024, to cover up the losses by legal reserve of NT\$4,129 thousand, and reverse special reserve of NT\$217 thousand.

The deficit compensation proposal for 2024 was approved in the shareholders' meeting held on June 24, 2025. The deficit was compensated by legal reserve in the amount of NT\$36,745 thousand, and a reversal of special reserve in the amount of NT\$867 thousand was also approved.

The deficit compensation proposal for 2025 was proposed by the Board of Directors on March 11, 2026. The deficit is to be compensated by legal reserve in the amount of NT\$37,124 thousand, which is subject to the resolution of the shareholders' meeting scheduled to be held on June 16, 2026.

(4) Special reserve

	<u>2025</u>	<u>2024</u>
Balance at the beginning of the year	\$ 867	\$ 1,084
Reversal of special reserve		
Reversal of deductions to other equity	(<u>867</u>)	(<u>217</u>)
Balance at the end of the year	<u>\$ -</u>	<u>\$ 867</u>

(5) Other equities

A. Exchange differences on translation of foreign financial statements:

	<u>2025</u>	<u>2024</u>
Balance at the beginning of the year	\$ 6,426	\$ 1,313
Recognized for the year		
Exchange differences arising from translation of a foreign operation	(1,933)	6,391
Income tax related to exchange differences arising from translation of a foreign operation	<u>386</u>	<u>(1,278)</u>
Balance at the end of the year	<u>\$ 4,879</u>	<u>\$ 6,426</u>

B. Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income

	<u>2025</u>	<u>2024</u>
Balance at the beginning and the end of the year	(\$ <u>2,180</u>)	(\$ <u>2,180</u>)

20. REVENUE

	<u>2025</u>	<u>2024</u>
Revenue from contracts with customers		
Sales revenue	\$ 1,120,821	\$ 1,228,551
Service revenue	<u>70,759</u>	<u>65,889</u>
	<u>\$ 1,191,580</u>	<u>\$ 1,294,440</u>

(1) Contract balances

	<u>December 31, 2025</u>	<u>December 31, 2024</u>	<u>January 1, 2024</u>
Notes and accounts receivables (Note 8)	<u>\$ 194,823</u>	<u>\$ 189,345</u>	<u>\$ 178,583</u>
Contract liabilities – current			
Sale of goods	\$ 996	\$ 20,739	\$ 14,034
Warranty service	<u>43,271</u>	<u>42,532</u>	<u>33,803</u>
	44,267	63,271	47,837
Contract liabilities – non-current			
Warranty service	<u>44,194</u>	<u>46,028</u>	<u>45,467</u>
	<u>\$ 88,461</u>	<u>\$ 109,299</u>	<u>\$ 93,304</u>

The changes in the balance of contract liabilities primarily resulted from the timing difference between the satisfaction of performance obligations and the respective customer's payment.

The amounts of revenue recognized in 2025 and 2024 that were included in the contract liability balance at the beginning of the year were NT\$62,703 thousand and NT\$35,624 thousand, respectively.

(2) Disaggregation of revenue from contracts with customers

Please refer to Note 33 for information regarding disaggregation of revenue.

(3) Contract with customers not completed in full

The transaction price allocated to the performance obligations that are not fully satisfied and the expected timing of recognition as service revenue are as follows:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Warranty service		
- Perform in 2024	\$ -	\$ 42,532
- Perform in 2025	43,271	27,788
- Perform in 2026	26,705	12,919
- Perform in 2027	12,081	3,898
- Perform in 2028	4,005	1,423
- Perform in 2029	<u>1,403</u>	<u>-</u>
	<u>\$ 87,465</u>	<u>\$ 88,560</u>

The aforementioned disclosure does not include sales contracts with maturity less than one year.

21. NET LOSS

(1) Interest income

	<u>2025</u>	<u>2024</u>
Bank deposits	\$ 1,349	\$ 1,134
Others	<u>97</u>	<u>88</u>
	<u>\$ 1,446</u>	<u>\$ 1,222</u>

(2) Other income

	<u>2025</u>	<u>2024</u>
Government Grants (Note 24)	\$ 2,619	\$ 539
Others	<u>525</u>	<u>737</u>
	<u>\$ 3,144</u>	<u>\$ 1,276</u>

(3) Other gains and losses

	<u>2025</u>	<u>2024</u>
Net foreign exchange (losses) gains	(\$ 3,770)	\$ 13,920
Gains (losses) on financial assets at fair value through profit or loss	617	(240)
Loss on disposal of property, plant and equipment	-	(133)
Others	<u>(20)</u>	<u>(32)</u>
	<u>(\$ 3,173)</u>	<u>\$ 13,515</u>

(4) Financial costs

	<u>2025</u>	<u>2024</u>
Interest on bank loans	\$ 3,056	\$ 2,786
Interest on lease liabilities	<u>1,504</u>	<u>1,807</u>
	<u>\$ 4,560</u>	<u>\$ 4,593</u>

(5) Depreciation and amortization

	<u>2025</u>	<u>2024</u>
Property, plant, and equipment	\$ 17,901	\$ 16,178
Right-of-use assets	27,230	26,722
Intangible assets	<u>2,144</u>	<u>3,099</u>
Total	<u>\$ 47,275</u>	<u>\$ 45,999</u>

Depreciation expenses by function

Operating costs	\$ 16,335	\$ 13,635
Operating expenses	<u>28,796</u>	<u>29,265</u>
	<u>\$ 45,131</u>	<u>\$ 42,900</u>

Amortization expenses by function

Operating costs	\$ 352	\$ 326
Operating expenses	<u>1,792</u>	<u>2,773</u>
	<u>\$ 2,144</u>	<u>\$ 3,099</u>

(6) Employee benefit expenses

	<u>2025</u>	<u>2024</u>
Post-retirement benefit (Note 18)		
Defined contribution plan	\$ 12,007	\$ 11,918
Defined benefit plan	<u>128</u>	<u>139</u>
	12,135	12,057
Other employee benefit	<u>297,782</u>	<u>277,860</u>
Total employee benefit	<u>\$ 309,917</u>	<u>\$ 289,917</u>
Summarized by function		
Operating costs	\$ 50,415	\$ 48,676
Operating expenses	<u>259,502</u>	<u>241,241</u>
	<u>\$ 309,917</u>	<u>\$ 289,917</u>

(7) Employees' compensation and directors' remuneration

According to the Company's Articles of Incorporation, if there is profit for the year, the Company shall distribute 0.5% to 10% of the profit as employees' compensation and no more than 3% as directors' remuneration, based on the net profit before tax before deducting employees' compensation and directors' remuneration. In accordance with the amendment to the Securities and Exchange Act in August 2024, the Company's shareholders' meeting in 2025 approved the amendment to the Articles of Incorporation to stipulate that no less than 30% of the employees' compensation distributed for the year shall be allocated as compensation for junior employees.

For the years ended December 31, 2025 and 2024, the Company incurred net losses before tax; therefore, no employees' compensation and directors' remuneration were estimated.

If there are any changes in the amounts after the date the annual parent company only financial statements are authorized for issue, the changes will be treated as changes in accounting estimates and adjusted in the following year.

There is no difference between the actual amounts of employees' compensation and directors' remuneration resolved by the Board of Directors and the amounts recognized in the parent company only financial statements for the years ended December 31, 2024 and 2023.

Information on the employees' compensation and directors' remuneration resolved by the Board of Directors is available at the "Market Observation Post System" (MOPS) of the Taiwan Stock Exchange.

(8) Gains or losses on foreign currency exchange

	<u>2025</u>	<u>2024</u>
Total gains on foreign currency exchange	\$ 23,228	\$ 43,286
Total losses on foreign currency exchange	(<u>26,998</u>)	(<u>29,366</u>)
Net gains and losses	(<u>\$ 3,770</u>)	\$ <u>13,920</u>

22. INCOME TAX

(1) Income tax recognized in profit or loss

The main components of income tax expense (benefit) are as follows:

	<u>2025</u>	<u>2024</u>
Deferred income tax		
In respect of the current year	\$ <u>3,328</u>	(\$ <u>6,973</u>)
Income tax expense (benefit) recognized in profit or loss	\$ <u>3,328</u>	(\$ <u>6,973</u>)

A reconciliation of accounting profit and income tax expense (benefit) is as follows:

	<u>2025</u>	<u>2024</u>
Net loss before tax	(\$ 77,126)	(\$ 46,020)
Income tax calculated at the 20% statutory rate	(\$ 15,425)	(\$ 9,204)
Tax-exempt income and non-deductible expenses	(89)	112
Unrecognized temporary differences and loss carryforwards	19,081	2,528
Effect of different tax rates applicable to consolidated entities	(239)	(409)
Income tax expense (benefit) recognized in profit or loss	<u>\$ 3,328</u>	<u>(\$ 6,973)</u>

The tax rates applicable to subsidiaries in China and the United States are 25% and 21%, respectively; the tax incurred for business operations in other locations is calculated according to the tax rates in each relevant jurisdiction.

(2) Income tax recognized in other comprehensive income

	<u>2025</u>	<u>2024</u>
<u>Deferred tax</u>		
In respect of the current year		
- Remeasurement of defined benefit plans	\$ 175	\$ 373
- Translation of foreign financial statements	(386)	<u>1,278</u>
Total income tax recognized in other comprehensive income	<u>(\$ 211)</u>	<u>\$ 1,651</u>

(3) Current income tax assets

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Current income tax assets		
Tax refund receivables	<u>\$ 175</u>	<u>\$ 5,959</u>

(4) Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities are as follows:

2025

	<u>Beginning balance</u>	<u>Recognized in profit or loss</u>	<u>Recognized in other comprehensive income</u>	<u>End balance</u>
<u>Deferred tax assets</u>				
Temporary differences				
Inventory price decline and obsolescence loss	\$ 16,576	\$ 931	\$ -	\$ 17,507
Pension not contributed	2,300	(92)	-	2,208

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	End balance
Share of profit or loss of subsidiaries accounted for using equity method	47,369	(1,310)	-	46,059
Unrealized gross profit from sales with subsidiaries	7,372	(2,573)	-	4,799
Others	<u>20</u>	<u>4</u>	<u>-</u>	<u>24</u>
	73,637	(3,040)	-	70,597
Loss deduction	<u>14,273</u>	<u>(24)</u>	<u>-</u>	<u>14,249</u>
	<u>\$ 87,910</u>	<u>(\$ 3,064)</u>	<u>\$ -</u>	<u>\$ 84,846</u>

Deferred income tax liabilities

Temporary differences				
Unrealized currency exchange gains	\$ 3,048	\$ 264	\$ -	\$ 3,312
Exchange differences on foreign operations	1,606	-	(386)	1,220
Defined benefit retirement plan	<u>2,121</u>	<u>-</u>	<u>175</u>	<u>2,296</u>
	<u>\$ 6,775</u>	<u>\$ 264</u>	<u>(\$ 211)</u>	<u>\$ 6,828</u>

2024

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Exchange differences	End balance
<u>Deferred tax assets</u>					
Temporary differences					
Inventory price decline and obsolescence loss	\$ 15,679	\$ 897	\$ -	\$ -	\$ 16,576
Pension not contributed	2,385	(85)	-	-	2,300
Share of profit or loss of subsidiaries accounted for using equity method	41,582	5,787	-	-	47,369
Unrealized gross profit from sales with subsidiaries	7,327	45	-	-	7,372
Others	<u>24</u>	<u>(4)</u>	<u>-</u>	<u>-</u>	<u>20</u>
	66,997	6,640	-	-	73,637
Loss deduction	<u>13,025</u>	<u>1,114</u>	<u>-</u>	<u>134</u>	<u>14,273</u>
	<u>\$ 80,022</u>	<u>\$ 7,754</u>	<u>\$ -</u>	<u>\$ 134</u>	<u>\$ 87,910</u>

Deferred income tax liabilities

Temporary differences					
Unrealized currency exchange gains	\$ 2,267	\$ 781	\$ -	\$ -	\$ 3,048
Exchange differences on foreign operations	328	-	1,278	-	1,606
Defined benefit retirement plan	<u>1,748</u>	<u>-</u>	<u>373</u>	<u>-</u>	<u>2,121</u>
	<u>\$ 4,343</u>	<u>\$ 781</u>	<u>\$ 1,651</u>	<u>\$ -</u>	<u>\$ 6,775</u>

- (5) Deductible temporary differences and losses not recognized in the consolidated balance sheet as deferred income tax assets

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Deductible temporary differences		
Impairment losses on		
intangible assets	\$ 1,375	\$ 3,024
Financial assets measured at		
fair value through other		
comprehensive income	2,180	2,180
Losses on inventory valuation	804	864
Others	-	391
Loss deduction	<u>282,562</u>	<u>217,279</u>
	<u>\$ 286,921</u>	<u>\$ 223,738</u>

- (6) Relevant information on unused loss deduction

As of December 31, 2025, relevant information on loss deduction is as follows:

The Company

<u>Un-deducted balance</u>	<u>Final deduction year</u>
\$ 52,366	2030
18,881	2034
<u>95,198</u>	2035
<u>\$ 166,445</u>	

MPLUS TECHNOLOGY

<u>Un-deducted balance</u>	<u>Final deduction year</u>
\$ 10,054	2032
<u>6,799</u>	2033
<u>\$ 16,853</u>	

CipherLab (Shanghai)

<u>Un-deducted balance</u>	<u>Final deduction year</u>
\$ 9,742	2027
<u>10,540</u>	2028
<u>\$ 20,282</u>	

CIPHERLAB USA, INC.

According to the U.S. income tax laws, loss carryforwards can be carried forward indefinitely; however, the deduction is limited to 80% of the taxable income in the profitable year. As of December 31, 2025, the amount of unused loss carryforwards was USD 4,780 thousand.

(7) Income tax assessments

The Company's and its subsidiary MPLUS TECHNOLOGY's income tax returns have been examined and cleared by the tax authorities through 2023 and 2024, respectively.

23. LOSSES PER SHARE

The earnings and weighted average number of ordinary shares outstanding used in the computation of losses per share are as follows:

Net loss for the year

	<u>2025</u>	<u>2024</u>
Losses used in the computation of basic and diluted losses per share	(<u>\$ 81,673</u>)	(<u>\$ 39,103</u>)

Number of shares

	Units: Thousands of Shares	
	<u>2025</u>	<u>2024</u>
Weighted average number of ordinary shares used in the computation of basic losses per share	<u>68,489</u>	<u>68,489</u>

24. GOVERNMENT GRANTS

- (1) In 2025 and 2024, the Group received various expense subsidies from the Ministry of Labor amounting to NT\$869 thousand and NT\$539 thousand, respectively, which were recognized under other income.
- (2) The Group's application for the "Mobile Device Edge AI Visual Recognition Pic'n Fill and Intelligent Cloud Application Generator Solution Development and International Promotion Project" from the Administration for Digital Industries, Ministry of Digital Affairs, was approved on November 24, 2025. The total approved subsidy amount is NT\$10,049 thousand. As of December 31, 2025, the cumulative subsidies received and cumulative subsidy income recognized amounted to NT\$1,750 thousand, which were recognized under other income.

25. CASH FLOW INFORMATION

(1) Non-cash transaction

Except as disclosed in other notes, the Group conducted the following non-cash investing activities in 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Partial cash payment for real property, plant and equipment		
Acquisition of property, plant and equipment	\$ 4,153	\$ 9,665
Changes in payables on purchases of equipment (Net)	<u>3,471</u>	<u>(42)</u>
Cash paid	<u>\$ 7,624</u>	<u>\$ 9,623</u>

In addition, during 2025, the Company refunded customers' deposits amounting to NT\$6,458 thousand, which were offset against accounts receivable.

(2) Changes in liabilities arising from financing activities

2025

	January 1, 2025	Cash flows	Non-cash changes					December 31, 2025
			Additions	Interest expense amortization	Offset against refund of sales proceeds	Exchange rate effects	Other	
Short-term loans	\$130,000	\$38,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$168,000
Guarantee deposits	6,458	-	-	-	(6,458)	-	-	-
Lease liabilities	<u>52,898</u>	<u>(27,359)</u>	<u>4,264</u>	<u>1,504</u>	<u>-</u>	<u>(776)</u>	<u>(1,504)</u>	<u>29,027</u>
	<u>\$189,356</u>	<u>\$10,641</u>	<u>\$ 4,264</u>	<u>\$ 1,504</u>	<u>(\$ 6,458)</u>	<u>(\$ 776)</u>	<u>(\$ 1,504)</u>	<u>\$197,027</u>

2024

	January 1, 2024	Cash flows	Non-cash changes				December 31, 2024
			Additions	Interest expense amortization	Exchange rate effects	Other	
Short-term loans	\$80,000	\$50,000	\$ -	\$ -	\$ -	\$ -	\$130,000
Long-term loans	3,278	(3,278)	-	-	-	-	-
Guarantee deposits	6,458	-	-	-	-	-	6,458
Lease liabilities	<u>30,441</u>	<u>(26,223)</u>	<u>47,174</u>	<u>1,807</u>	<u>1,506</u>	<u>(1,807)</u>	<u>52,898</u>
	<u>\$120,177</u>	<u>\$20,499</u>	<u>\$47,174</u>	<u>\$ 1,807</u>	<u>\$ 1,506</u>	<u>(\$ 1,807)</u>	<u>\$189,356</u>

26. CAPITAL MANAGEMENT

The consolidated company manages its capital to ensure that every entity within the consolidated company can function effectively and generate maximum returns for shareholders by optimizing the balance of liability and equity.

The capital structure is made up of the interests of the consolidated company.

The consolidated company is not subject to meeting other external capital requirements.

27. FINANCIAL INSTRUMENTS

(1) Fair value of financial instruments not measured at fair value

The consolidated company's management considers that carrying amount of financial instruments that are not measured at fair value in the consolidated financial statements approximate the fair values.

(2) Fair value information – financial instruments measured at fair value on a recurring basis

Fair value hierarchy

December 31, 2025

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
<u>measured at fair value</u>				
<u>through profit or loss</u>				
Beneficiary certificates of funds	\$ 47,008	\$ -	\$ -	\$ 47,008

December 31, 2024

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
<u>measured at fair value</u>				
<u>through profit or loss</u>				
Beneficiary certificates of funds	\$ 9,760	\$ -	\$ -	\$ 9,760

There were no transfers between Level 1 and Level 2 fair value measurements in 2025 and 2024.

(3) Categories of financial instruments

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
<u>Financial assets</u>		
Measured at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 47,008	\$ 9,760
Financial assets at amortized cost (Note 1)	306,656	327,123
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (Note 2)	266,484	262,881

Note 1: The balance includes financial assets measured at amortized cost, such as cash, financial assets at amortized cost, notes receivable, accounts receivable, other receivables (excluding tax refund receivable), and refundable deposits.

Note 2: The balance includes financial liabilities measured at amortized cost, such as short-term borrowings, notes payable, accounts payable, other payables (excluding accrued salaries and bonuses, employee benefits, insurance, business tax, and employees' compensation and directors' remuneration), and guarantee deposits received.

(4) Financial risk management objectives and policies

The consolidated company's major financial instruments include investments in beneficiary certificates of funds, accounts receivable, accounts payable, and lease liabilities. The financial risks relating to the operation of the consolidated company include market risk (including foreign currency risk, interest risk, and other price risk), credit risk, and liquidity risk.

A. Market risk

The Group's operating activities expose it to several financial risks, primarily the risks of changes in foreign currency exchange rates, interest rates, and other price risks.

There has been no change to the consolidated company's exposure to market risks or the manner in which these risks are managed and measured.

(I) Foreign currency risk

The company engages in foreign currency sales and purchases, which exposes it to exchange rate fluctuations. To minimize risks, the company regularly assesses the net risk for sales and cost amounts in non-functional currencies and adjusts its cash holdings accordingly.

The carrying amounts of the consolidated company's foreign currency denominated monetary assets and monetary liabilities are set out in Note 31.

Sensitivity analysis

The consolidated company is mainly exposed to the U.S. dollar exchange rate fluctuation.

The following table details the consolidated company's sensitivity to a 1% change in the functional currency against U.S. dollar. 1% is the sensitivity rate used when reporting exchange rate risk to key management in the consolidated company. This rate is based on management's evaluation of potential fluctuations in foreign currency exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. It is imperative to consider the consolidated company's external accounts receivable, and accounts payable in addition to internal receivables from foreign operating institutions and foreign currency bank account balances for sensitivity analysis.

The positive number in the table below means that when the functional currency depreciates by 1% against the U.S. dollar, it will decrease the

pre-tax net loss; when the functional currency appreciates by 1% relative to the U.S. dollar, the impact on the pre-tax net loss will be the same amount negative number.

	Impact of the U.S. dollar	
	2025	2024
Profit or loss	\$ 1,027	\$ 1,534

The aforementioned impact was mainly derived from foreign currency-denominated receivables, payables, and foreign currency bank account balances that were outstanding at the balance sheet date and were not under cash flow hedges.

The Group's sensitivity to foreign exchange rates decreased in 2025, which was mainly due to the decrease in net foreign currency assets.

(II) Interest risk

The consolidated company's bank deposits and borrowings consist of fixed and floating interest rates which may lead to the consolidated company's exposure to interest risk.

The carrying amounts of the consolidated company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31, 2025	December 31, 2024
Fair value interest rate risk		
- Financial liabilities	\$ 117,027	\$ 82,898
Cash flow interest rate risk		
- Financial assets	83,392	97,100
- Financial liabilities	80,000	100,000

Sensitivity analysis

The sensitivity analysis below was determined based on the consolidated company's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of each liability outstanding at the end of the reporting period was outstanding for the whole year. The rate of change used when reporting interest rates to the key management in the consolidated company reflects a 25-basis point increase or decrease per annum. This rate serves as a reference for potential fluctuations to the management team in their evaluations.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's net loss before tax for the year ended December 31, 2025 would have decreased/increased by NT\$8 thousand; the net loss before tax for the year ended December 31, 2024 would have increased/decreased by NT\$7 thousand. This is mainly attributable to the Group's exposure to interest rate risk on its floating-rate bank deposits and borrowings.

There was no significant change in the Group's sensitivity to interest rates in 2025 compared to 2024.

(III) Other price risk

The consolidated company is exposed to price risk for investments in beneficiary certificates of funds.

Sensitivity analysis

The sensitivity analysis as follows is based on the prices of beneficiary certificates of funds at the balance sheet date.

If fund prices had been 1% higher/lower, the net loss before tax for the years ended December 31, 2025 and 2024 would have decreased/increased by NT\$470 thousand and NT\$98 thousand, respectively, as a result of the changes in the fair value of financial assets at fair value through profit or loss.

The Group's sensitivity to price risk in 2025 and 2024 changed mainly due to an increase in the value of the investment in fund beneficiary certificates.

B. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the consolidated company. As at the end of the reporting period, the consolidated company's maximum exposure to credit risk, which would cause a financial loss to the consolidated company due to the failure of the counterparty to discharge its obligation, could be equal to the total of the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

The Group's policy is to trade only with creditworthy counterparties and to obtain sufficient collateral, where necessary, as a means of mitigating the risk of financial loss from defaults.

The Group's credit risk is mainly concentrated on its top five customers. As of December 31, 2025 and 2024, accounts receivable from these customers accounted for 29% and 40% of the total accounts receivable, respectively.

C. Liquidity risk

The consolidated company's objective is to finance its operations and mitigate the effects of fluctuations in cash flows through the use of cash and cash equivalents, equity investments and bank loans. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The consolidated company relies on bank borrowings as a significant source of liquidity. As of December 31, 2025 and 2024, the consolidated company had available unutilized short-term bank loan facilities set out in (II) below.

(I) Liquidity and interest rate risk tables

The following table details the consolidated company's remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the consolidated company can be required to pay. The table includes both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed upon repayment dates.

December 31, 2025

Non-derivative financial liabilities	On demand or less than 1 month	1~3 months	3~12 months	1~5 years	5+ years
Non-interest-bearing liabilities	\$ 73,240	\$ 25,241	\$ 3	\$ -	\$ -
Floating rate instrument	\$ -	\$ -	\$ 81,351	\$ -	\$ -
Fixed rate instrument	\$ -	\$ 88,306	\$ -	\$ -	\$ -
Lease liabilities	\$ 2,013	\$ 4,625	\$ 4,488	\$ 18,520	\$ 2,714

December 31, 2024

Non-derivative financial liabilities	On demand or less than 1 month	1~3 months	3~12 months	1~5 years	5+ years
Non-interest-bearing liabilities	\$ 84,566	\$ 41,718	\$ 139	\$ 6,458	\$ -
Floating rate instrument	\$ 20,026	\$ 80,249	\$ -	\$ -	\$ -
Fixed rate instrument	\$ 30,039	\$ -	\$ -	\$ -	\$ -
Lease liabilities	\$ 2,083	\$ 4,725	\$ 22,702	\$ 21,296	\$ 7,009

(II) Financing facilities

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Unsecured short-term bank borrowing facilities		
- Amount used	\$ 128,049	\$ 130,000
- Amount unused	<u>160,381</u>	<u>156,393</u>
	<u>\$ 288,430</u>	<u>\$ 286,393</u>
Secured short-term bank borrowing facilities		
- Amount used	\$ 50,000	\$ -
- Amount unused	<u>83,000</u>	<u>190,000</u>
	<u>\$ 133,000</u>	<u>\$ 190,000</u>

28. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the consolidated company and other related parties are disclosed as follows.

(1) Related party name and category

<u>Related Party Name</u>	<u>Relationship with the Company</u>
AtechOEM Inc.	Substantive Related Parties; became non-related party since June 24, 2025
Weikeng Industrial Co., Ltd.	Substantive Related Parties; became non-related party since June 20, 2024

(2) Operating transactions

	<u>2025</u>	<u>2024</u>
<u>Purchases of goods</u>		
Substantive Related Parties	<u>\$ 1,330</u>	<u>\$ 2,031</u>

There is no significant difference regarding the terms and conditions for the purchase price and the payment terms between the consolidated company and related parties and those of the third parties.

(3) Payables to related parties

<u>Item</u>	<u>Related party category/Name</u>	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Accounts payable	Substantive related parties	<u>\$ -</u>	<u>\$ 104</u>

The balance of payables to related parties has not been pledged as collateral.

(4) Compensation of key management personnel

	<u>2025</u>	<u>2024</u>
Short-term employee benefits	\$ 16,698	\$ 16,200
Post-employment benefits	<u>141</u>	<u>141</u>
	<u>\$ 16,839</u>	<u>\$ 16,341</u>

The compensation to directors and other key management personnel were determined by the Compensation Committee in accordance with the individual performance and market trends.

29. ASSETS PLEDGED AS SECURITY

The following assets have been provided in response to relevant tax laws and regulations as collateral for short-term bank loans:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Land	\$ 57,996	\$ 57,996
Building	28,067	29,058
Pledged time deposits (recognized as financial assets at amortized cost)	<u>2,500</u>	<u>1,500</u>
	<u>\$ 88,563</u>	<u>\$ 88,554</u>

As of December 31, 2025 and 2024, the annual interest rates for the aforementioned pledged time deposits were both 1.685%.

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENT

Significant contingent liabilities and unrecognized commitments of the Company as of the end of the reporting period, excluding those disclosed in other notes, were as follows:

Significant Commitments

(1) The Company's unrecognized contractual commitments are as follows:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Acquisition of property, plant and equipment	<u>\$ 4,605</u>	<u>\$ 246</u>

(2) As of December 31, 2025, in connection with the application for the "Mobile Edge AI Visual Recognition Pic'n Fill and Intelligent Cloud Application Generator Solution Development and International Promotion Project" from the Administration for Digital Industries, Ministry of Digital Affairs, the Company has applied to financial institutions for the issuance of performance bonds totaling NT\$10,049 thousand, in accordance with the relevant contractual terms.

31. SIGNIFICANT FINANCIAL ASSETS AND LIABILITIES DENOMIATED IN FOREIGN CURRENCIES

The consolidated company's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies of the entities in the consolidated company and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

December 31, 2025

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
<u>Foreign currency financial assets</u>			
<u>Monetary item</u>			
USD	\$ 5,234	31.43 (USD : NTD)	\$ 164,498
<u>Foreign currency financial liabilities</u>			
<u>Monetary item</u>			
USD	1,967	31.43 (USD : NTD)	61,833

December 31, 2024

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
<u>Foreign currency financial assets</u>			
<u>Monetary item</u>			
USD	\$ 6,698	32.785 (USD : NTD)	\$ 219,599
<u>Foreign currency financial liabilities</u>			
<u>Monetary item</u>			
USD	2,019	32.785 (USD : NTD)	66,189

Foreign currency exchange gains and losses with significant impact (including realized and unrealized) are as follows:

	<u>2025</u>		<u>2024</u>	
<u>Foreign currency</u>	<u>Exchange rate</u>	<u>Net exchange gain (loss)</u>	<u>Exchange rate</u>	<u>Net exchange gain (loss)</u>
USD	31.18 (USD : NTD)	(\$ 3,204)	32.112 (USD : NTD)	\$ 13,920
CNY	7.144 (USD : CNY)	(566)	7.1203 (USD : CNY)	-
		<u>(\$ 3,770)</u>		<u>\$ 13,920</u>

32. OTHER DISCLOSURES

(1) Information on significant transactions:

- A. Financing provided to others: None;
- B. Endorsements/guarantees provided: None;
- C. Significant securities held at the end of the period (excluding investments in subsidiaries, associates and jointly controlled entities): Table 1;
- D. Total purchases from or sales to related parties of at least to NT\$100 million or 20% of the paid-in capital: Table 2;
- E. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None;
- F. Others: intercompany relationships and significant intercompany transactions: Table 3

(2) Information on investees: Table 4

(3) Information on investments in Mainland China:

- A. The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, net income (losses) of the investee, investment income (losses), ending balance, amount received as dividends from the investee, and the limitation on investee: Table 5;
- B. Significant direct or indirect transactions with the investee, its prices and terms of payment and unrealized gain or loss: None;
- (I) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
- (II) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
- (III) The amount of property transactions and the amount of the resultant gains or losses.
- (IV) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
- (V) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
- (VI) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

33. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The reportable segments of the consolidated company are as below.

The chief operating decision maker views each direct sales unit as an individual operating segment. However, for the purpose of preparing financial reports, the Group aggregates these operating segments into a single operating segment, taking into account the following factors:

- (1) The nature of the products and the production processes are similar;
- (2) The product pricing strategies and the sales models are similar.

(A) Segment revenue and operating results

Following was an analysis of the consolidated company's revenue and operating results by reportable segments:

	Segment Revenue		Segment Profit	
	2025	2024	2025	2024
Direct customer department	\$ 40,192	\$ 87,317	\$ 1,941	\$ 22,327
Agency department	808,005	910,150	(75,561)	(30,290)

	Segment Revenue		Segment Profit	
	2025	2024	2025	2024
U.S. sales department	254,074	246,346	(5,658)	(25,635)
China sales department	20,623	31,868	(10,901)	(15,515)
Other segments	<u>68,686</u>	<u>18,759</u>	<u>26,760</u>	<u>2,157</u>
Total for operation units	<u>\$ 1,191,580</u>	<u>\$ 1,294,440</u>	(63,419)	(46,956)
Interest income			1,446	1,222
Other incomes			3,144	1,276
Other profit or loss			(3,173)	13,515
Headquarters' management costs and directors' remuneration			(10,564)	(10,484)
Financial costs			(<u>4,560</u>)	(<u>4,593</u>)
Net loss before tax			(<u>\$ 77,126</u>)	(<u>\$ 46,020</u>)

Segment profits refer to the earnings by each division, excluding apportionable administrative costs of headquarter and directors' remuneration, interest income, other incomes, other gains and losses, financial costs and income tax expense. The amount of measurement is then provided to the chief operating decision-maker to allocate resources to divisions and evaluate the division's performance.

(B) Total segment assets and liabilities

The amount of measurement for the consolidate company's assets and liabilities was not provided to the chief operating decision-maker, so the relevant information will not be disclosed.

(C) Revenue from major products and services

The following is an analysis of the consolidated company's revenue from its major products and services:

	2025	2024
Electronic instruments	\$ 1,120,821	\$ 1,228,551
Technology, maintenance service	<u>70,759</u>	<u>65,889</u>
	<u>\$ 1,191,580</u>	<u>\$ 1,294,440</u>

(D) Geographical information

The consolidated company operates in three principal geographical areas - Taiwan, Mainland China and U.S.A.

The consolidated company's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	Revenue from External Customers		Non-current Assets	
			December 31,	December 31,
	2025	2024	2025	2024
Taiwan	\$ 916,883	\$1,016,226	\$ 133,614	\$ 161,191
Mainland China	20,623	31,868	37	45
U.S.A.	<u>254,074</u>	<u>246,346</u>	<u>15,141</u>	<u>18,470</u>
	<u>\$1,191,580</u>	<u>\$1,294,440</u>	<u>\$ 148,792</u>	<u>\$ 179,706</u>

Non-current assets exclude deferred tax assets.

(E) Information about major customers

Customers accounted for more than 10% of the consolidated company's operating income:

	2025	2024
Company B	<u>\$ 135,765</u>	<u>\$ 137,019</u>
Company A	(Note)	<u>165,031</u>
		<u>\$ 302,050</u>

Note: Amount of revenue did not reach 10% of total operating revenue of the consolidated company.

CIPHERLAB CO., LTD. AND SUBSIDIARIES
Significant securities held at the end of the period
December 31, 2025

Table 1

Unit: In Thousands of New Taiwan Dollars

Holding Company Name	Marketable Securities Type and Name	Relationship with the holding company	Financial Statement Account	End of the reporting period				Note
				Shares / Units	Carrying Amount	Percentage of Ownership (%)	Fair Value	
CIPHERLAB CO., LTD.	Funds Cathay US Premium Bond Fund (Class A)	None	Financial assets measured at fair value through profit or loss	904,821.8	\$ 10,089	-	\$ 10,089	Note
MPLUS TECHNOLOGY CO., LTD.	Funds Allianz Global Investors Taiwan Money Market Fund	None	Financial assets measured at fair value through profit or loss	1,897,847.43	25,170	-	25,170	Note
CIPHERLAB LIMITED (SAMOA)	Funds Allianz Global Diversified Credit AT - USD	None	Financial assets measured at fair value through profit or loss	29,007.55	11,749	-	11,749	Note

Note: The fair value of the aforementioned fund beneficiary certificates held by the Group is determined based on the net asset value of the funds at the balance sheet date.

CIPHERLAB CO., LTD. AND SUBSIDIARIES

Total purchase from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital

January 1 to December 31, 2025

Table 2

Unit: In Thousands of New Taiwan Dollars

Company Name	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/Sales	Amount	Percentage of Total Purchases/Sales (%)	Payment Terms	Unit Price	Payment Terms	Ending Balance	Percentage of Total Notes/Accounts Payable or Receivable (%)	
CIPHERLAB CO., LTD.	CIPHERLAB USA, INC.	Subsidiary	(Sales)	(\$ 154,445)	(15)	210 days after monthly closing	\$ -	15~120 days after monthly closing	\$ 31,428	15	Note
CIPHERLAB USA, INC.	CIPHERLAB CO., LTD.	Parent company	Purchases	154,445	100	210 days after monthly closing	-	15~120 days after monthly closing	(31,428)	(100)	//

Note: The transactions have been eliminated in the consolidated financial statements.

CIPHERLAB CO., LTD. AND SUBSIDIARIES

Business relationships and significant intercompany transactions and amounts between the parent company and its subsidiaries and among subsidiaries

January 1 to December 31, 2025

Table 3

Unit: In Thousands of New Taiwan Dollars

No. (Note 1)	Company Name	Counterparty	Relationship	Intercompany Transactions			
				Financial Statement Item	Amount (Note 2)	Transaction Terms	Percentage of Consolidated Net Revenue or Total Assets (%) (Note 3)
0	CIPHERLAB CO., LTD.	CIPHERLAB USA, INC.	Parent company to subsidiary	Operating revenue	\$ 154,445	The payment period is 210 days after monthly closing, and the price is not significantly different from that of general sales	13
0	CIPHERLAB CO., LTD.	MPLUS TECHNOLOGY CO., LTD.	Parent company to subsidiary	Accounts receivable – related parties	31,428		3
				Unrealized profit of associated companies	23,583		2
				Operating revenue	22,676	2	
				Accounts receivable – related parties	8,309	The payment period is 210 days after monthly closing, and the price is not significantly different from that of general sales	1

The business relationship between the parent company and its subsidiaries:

The Company is primarily engaged in the manufacture and sale of electronic products. CIPHERLAB LIMITED (SAMOA) acts as a holding company. CIPHERLAB USA, INC. is primarily engaged in the sale of electronic products, and MPLUS TECHNOLOGY is primarily engaged in the development and sale of electronic products.

Note 1: Significant transactions between the parent company and its subsidiaries or among subsidiaries are numbered as follows:

(1) Enter 0 for the parent company.

(2) Subsidiaries are numbered sequentially from “1” according to company type.

Note 2: The table attached only discloses information regarding one-sided transactions that have been written off in the preparation of consolidated financial statements.

Note 3: Regarding the ratio of the transaction amount to the consolidated total operating income or total assets, it is calculated by the ending balance to the consolidated if it is recognized as liabilities; if as profit or loss, then by the ending cumulative amount to the consolidated total operating income.

CIPHERLAB CO., LTD. AND SUBSIDIARIES

Name, location, and related information of investees

January 1 to December 31, 2025

Table 4

Unit: In Thousands of New Taiwan Dollars, unless specified otherwise

Investor Company	Investee Company	Location	Main Business and Products	Original Investment Amount		Balance as of December 31, 2025			Net Income (Losses) of the Investee	Recognized Investment Income (Losses)	Note
				December 31, 2025	December 31, 2024	Shares	Percentage of Ownership (%)	Carrying Amount			
CIPHERLAB CO., LTD.	CIPHERLAB USA, INC.	USA	Electronics sales	USD 5,150	USD 5,150	5,000,000	100	NTD 18,673 (Note 2)	(NTD 15,260)	(NTD 15,260)	Note 1&2
	CIPHERLAB LIMITED (SAMOA)	Samoa	Investment holding	USD 4,150	USD 4,150	4,150,000	100	NTD 12,800 (Note 2)	(NTD 719)	(NTD 719)	"
	MPLUS TECHNOLOGY CO., LTD.	Taiwan	Electronic product development and design	NTD 37,000	NTD 37,000	2,751,282	95	NTD 17,653	NTD 23,748	NTD 22,529	"

Note 1: No market price is available, and the carrying amount on the balance sheet date is the fair value.

Note 2: The amounts have been eliminated at preparing the consolidated financial statement.

CIPHERLAB CO., LTD. AND SUBSIDIARIES

Information on investment in Mainland China

January 1 to December 31, 2025

Table 5

Unit: In Thousands of New Taiwan Dollars, unless specified otherwise

1. Name of the investee company in Mainland China, main business and products, paid-in capital, investment method, investment flows, shareholding ratio, investment profit or loss, investment carrying amount, and inward remittance of investment earnings:

Investee company name	Main business and products	Total Amount of Paid-in capital	Investment Method (Note 1)	Accumulated outflow of investment from Taiwan at the beginning of the period	Investment flows		Accumulated outflow of investment from Taiwan at the end of the reporting period	Current profit or loss of the investee company	Ownership of direct or indirect investment (%)	Current recognized investment profit or loss (Note 2.2.(2))	Carrying value at the end of the period	Accumulated inward remittance of investment earnings at the end of reporting period	Note
					Out flow	Inflow							
CIPHERLAB ELECTRONICS TRADING (SHANGHAI) CO., LTD.	Electronics sales	\$ 119,388 (USD 3,800) (Note 5)	2.	\$ 130,384 (USD 4,150)	\$ -	\$ -	\$ 130,384 (USD 4,150) (Note 4)	(\$ 799)	100	(\$ 799)	\$ 870	\$ -	Has been consolidated and written off when preparing this consolidated financial statement

2. Investment amount in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2025	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$ 130,384 (USD 4,150)	\$ 130,384 (USD 4,150)	\$ 387,509

Note 1: The methods for engaging in investment in mainland China include the following:

1. Direct investment in mainland China.
2. Indirect investment in mainland China through a third area (CIPHERLAB LIMITED (SAMOA)).
3. Other method.

Note 2: The investment income (loss) recognized in current period:

1. No investment income (loss) has been recognized due to the investment is still in the development stage.
2. The investment income (loss) was determined based on the following basis:
 - (1) The financial report was audited and certified by an international accounting firm in cooperation with an accounting firm in the ROC.
 - (2) The financial statements were audited by the parent company's auditors.
 - (3) Others

Note 3: The figures presented in this table are in New Taiwan Dollars.

Note 4: The company has remitted a total of USD 4,150 thousand for investment.

Note 5: CIPHERLAB ELECTRONICS TRADING (SHANGHAI) CO., LTD. underwent a cash capital reduction in January 2025 and completed the registration for the cancellation of share capital amounting to USD 350 thousand. As the parent company has not yet received the remitted funds from this investment, the cumulative investment amount remitted from Taiwan as of the end of the current period has not been deducted by the aforementioned amount.