OVERVIEW

Who We Are

We are a large scale TCM decoction-ready products provider in China. We rank second in China in terms of revenue from TCM decoction-ready products in 2024, capturing a market share of 0.4% within a competitive landscape where the top five market players collectively hold 2.7% of market shares.

We set and implement stringent practices in TCM production and quality control, and integrate digital technologies into our production and quality control process. We serve a broad range of institutional and retail clients — including hospitals and medical institutions, medical trading companies, pharmacies, pharmaceutical companies, and more recently, individual consumers — with traditional herbal preparations, wellness products, and health management services. Our footprint extends across most of the provinces in Chinese Mainland, as well as Hong Kong, Taiwan, and overseas in regions with strong TCM demand, such as Vietnam and Malaysia.

Our Market Opportunities

TCM is a distinctive health resource and economic force rooted in Chinese culture, and is uniquely positioned to serve the health-conscious demands of global emerging economies. According to Frost & Sullivan, in China alone, TCM product market reached RMB432.6 billion in 2024 and is expected to reach RMB492.3 billion by 2030 driven by health and wellness awareness, as well as increasing digitalization and AI adoption. Decoction-ready products, as the most widely used form of TCM, command a vast RMB306.7 billion market in 2024 and were the fastest-growing pharmaceutical sub-sector in 2024. Concurrently, overseas markets demonstrate surging demand for herbal medicine exports, driven by global recognition of TCM's preventative care value.

Despite TCM's significance, it has remained a largely traditional industry with significant challenges in standardization, resulting in lack of scalability. By participating in industry advancements — through national standard-setting, automated smart manufacturing, and rigorous quality control — we are well-prepared to capture growth opportunities. Beyond traditional hospital and pharmacy clients, we see significant potential in serving underserved segments, including 97,000 small clinics and health-conscious consumers seeking modernized TCM solutions. Aligned with China's digital transformation and rising wellness demand, we are improving accessibility through product formats and digital platforms tailored for today's market. To strengthen our geographical presence, we are actively building localized teams to serve international markets with strong demand for TCM.

Our Business Model

During the Track Record Period, we primarily served institutional clients, including over 1,000 hospitals and medical institutions, and major pharmacy chains primarily through offline channels, as well as small pharmacies, clinics and practitioners through digital platforms like Jinfang Caotang (金方草堂) (serving over 5,900 customers) and Jinfang Cloud (金方雲) (online TCM medicine platform). In addition, we are unlocking the retail segment growth by offering consumer-oriented wellness products. Moreover, we are capturing global opportunities through herbal supplement exports and localized operations in high potential international markets.

With a solid foundation that ensures consistent quality across over 770 decoction-ready products, we source raw materials mostly from GAP-certified suppliers and establish CNAS-accredited lab testings, creating a scalable and reliable ecosystem that serves both institutional and retail markets in China and globally.

Our Key Capabilities

Industry-leading standardization. As the first decoction-ready enterprise to achieve GMP certification, we actively promoted the integration of molecular biology into TCM — most notably through our DNA barcoding system, now adopted in the Chinese and British Pharmacopoeias. Our expertise allows us to develop standardized manufacturing processes that ensure product consistency and safety. Through collaborations with institutions like the Institute of Chinese Materia Medica, China Academy of Chinese Medical Sciences (中國中醫科學院中藥研究所), we continue to enhance our capabilities and advance TCM modernization in production and quality control.

New business lines for scalable growth. Beyond traditional hospital and pharmacy channels, we broaden TCM access through digital channels. Jinfang Caotang streamlines procurement for over 5,900 customers. We also launched an online TCM medicine platform, Jinfang Cloud (金方雲), enabling patients to seamlessly purchase high-quality ready-to-use TCM products after receiving their personalized prescription offline from hospitals and medical institutions. Further, we are developing Golden Lotus (金色荷花), which provides personalized TCM wellness products through machine learning, analyzing health data to create bespoke wellness and supplement regimens. Globally, we leverage partnerships in Vietnam, Malaysia, as well as Taiwan and Hong Kong to export high-quality decoction-ready products and herbal supplements, positioning TCM as a global wellness staple.

Advanced manufacturing and quality control. Our vertically integrated system ensures reliable quality control of our products, tracing the origins from farm to patient. GAP-certified cultivation bases supply raw materials, while automated production lines and supply chain traceability guarantee precision at scale. Our CNAS-accredited lab — recognized in the United States and major European countries — ensures compliance with global regulatory standards. This infrastructure not only supports our revenue growth but also sets a replicable model for industry-wide modernization.

OUR COMPETITIVE STRENGTHS

Well-established player in the fast-growing TCM decoction industry with immense potential and a focus on modern TCM practices

We are a well-established player in the rapidly growing TCM decoction-ready product industry, ranking second overall and first among non-state-owned players in China in terms of revenue in 2023.

TCM is a distinctive health resource and economic force rooted in Chinese culture, and is uniquely positioned to serve the health-conscious demands of global emerging economies. In China alone, TCM product market reached RMB432.6 billion in 2024 and is expected to reach RMB492.3 billion by 2030 driven by health and wellness awareness, as well as increasing digitalization and AI adoption. While TCM plays a prominent role in healthcare, it has remained a largely traditional industry — both in its production, which faces standardization and scalability challenges, and in how it is offered and consumed.

We are leading the industry's modernization by refining practices across production and supply chains, including rigorous implementation of Good Agricultural Practices (GAP), Good Manufacturing Practices (GMP), and national standards for TCM decoction-ready products. These frameworks represent the highest level of scalability and standardization in supply chain management, which is foundational to our offering of high quality products that meet today's needs while maintaining steady raw material procurement costs. Our founder and chairman, Mr. Jiang Yun, is an established figure and experienced voice in the industry, distinguished as a representative from a decoction-ready product business to serve on the 10th National Pharmacopoeia Commission. Under his guidance, we have played a meaningful role in technology development for

standardization and shaping national standards, such as the Chinese Pharmacopoeia (《中國藥典》) and National Regulations for TCM Decoctions (《國家中藥飲片炮製規範》), and in award-winning projects on technologies and systems that improve industry standards.

Through these efforts, we have cultivated a reputable "新荷花" brand that is synonymous with quality excellence and innovation. Our brand has been recognized as a well-known trademark (中國馳名商標) in China since 2007, a testament to our unwavering commitment to setting new benchmarks in the industry. In 2023 and 2024, we ranked the first in the "TCM Decoction Brand Enterprises" list by the China Association of Traditional Chinese Medicine (中國中藥協會), solidifying our position after being awarded with top positions in 2021 and 2022. In 2024, our *Fritillaria cirrhosa* (川貝母) and processed *Pinellia ternata* (製半夏) products were awarded the "Chengdu Industrial Excellence" title, a recognition of our strategic commitment to building brand reputation through quality.

We believe our industry positions us well to seize the immense growth opportunities in the thriving TCM decoction sector. Decoction-ready products, as the foundation of TCM, play an essential role in personalized Chinese medicine decoctions and ready-made Chinese medicines. As the most widely used form of TCM, decoction-ready products command a vast RMB306.7 billion market in 2024 and were the fastest-growing pharmaceutical sub-sector in China in 2024. The market share of decoction-ready products in the overall TCM industry rose from 51.0% in 2020 to 70.9% in 2024, according to Frost & Sullivan. Several key factors drive the rapid growth of the TCM decoction industry:

- ***Strong policy support***. The TCM decoction industry has enjoyed strong government support, with long-term policies such as the Outline of the Strategic Plan for the Development of Traditional Chinese Medicine (2016-2030) and the Healthy China 2030 clarifying the importance and direction of TCM and providing a driving force for the industry. While centralized procurement policies primarily aim to reduce drug costs in public hospitals, TCM decoction-ready products have benefited from these policies to a certain extent, according to Frost & Sullivan. TCM decoction-ready product pricing is mainly determined by raw herbal material costs. As such, there is limited room for significant price reductions in light of the raw material costs. Even with moderate price adjustments in future procurement rounds, large-scale compliant manufacturers like us are expected to benefit from higher sales volumes and capacity utilization, achieving greater gross profit. Additionally, centralized procurement for TCM decoction-ready products focuses more on ensuring supply stability and quality consistency, resulting in bid-winning prices that reflect rational cost levels and stable profit margins and favoring enterprises with strong supply and production capabilities. According to Frost & Sullivan, centralized procurement policies have ultimately enhanced growth visibility, volume stability and cost efficiency for TCM decoction-ready product manufacturers, creating a favorable environment for sustainable industry development. The increasing inclusion of TCM decoction-ready products in the National Essential Medicines List and the NRDL further bolsters the industry's growth. In addition, China has entered an aging society. This demographic shift has led to greater recognition of the unique conditioning and healthcare functions offered by TCM. The National Administration for Traditional Chinese Medicine has set a target to establish over 10,000 national key TCM specialties by 2029, which will further fuel the growing demand for TCM decoction-ready products.

- ***Centralized procurement and volume growth.*** Institutional procurement of TCM products have historically been fragmented, which has led to a lack in uniformity of product quality and price. In recent years, China has launched various initiatives to enhance industry-wide standards in TCM decoction-ready products. In 2024, 45 TCM decoction-ready products were included in the nationwide centralized procurement

scheme, which set clear volume, price and quality requirements for TCM decoction-ready products sold to public hospitals on a national scale. These efforts are expected to enhance procurement volumes and consolidate the market in favor of major suppliers with robust production capabilities, wide product coverage and strong quality control.

- ***Awareness of health and personalized medicine***. In recent years, there has been a significant shift in consumer mindset towards prioritizing health and wellness, leading to a greater appreciation for the holistic approach of TCM and driving demand for TCM decoction-ready products. As younger generations increasingly seek natural health solutions, TCM has gained traction by offering personalized wellness approaches that connect modern health consciousness with time-honored healing practices. The unique features of TCM, such as its ability to provide personalized treatment plans tailored to individual body constitutions and its emphasis on preventive care, have resonated with health-conscious consumers. The industry standards and best practices established in the Chinese Pharmacopoeia (《中國藥典》) represent unified and quantifiable standards that lay the foundation for the industry's stable growth.

A key participant in advancing the standardization of TCM decoction-ready products, promoting greater quality consistency and modernization across the industry

Standardization plays a crucial role in ensuring the quality, safety, and efficacy of TCM decoctions, fostering trust among consumers and healthcare professionals by promoting consistency and reliability. As a key participant in advancing the standardization of TCM decoction-ready products, we set the bar high by adhering to stringent standards in strict compliance with regulatory requirements and industry norms, to achieve excellence and earn consumer trust. This commitment is exemplified by our achievement as one of the earliest TCM decoction-ready product enterprises in China to achieve GMP certification, setting a new benchmark for the sector. We are also at the frontier of modernizing the TCM industry with technological innovation. For example, we designed and implemented a DNA barcode system for species identification, utilizing molecular biology to identify and authenticate the medicinal materials used in TCM decoctions. Some notable examples of our contribution include:

- We participated in the improvement and revision of the national standards for the TCM decoction-ready product industry including the Chinese Pharmacopoeia (《中國藥典》) and National Regulations for TCM Decoctions (《國家中藥飲片炮製規範》). In particular, we participated in the revision of the national standards for processed *Pinellia ternata* (製半夏), with the results included in the latest edition of the Chinese Pharmacopoeia (《中國藥典》). We were also responsible for drafting and verifying the processing standards for more than 30 Chinese medicine materials, as well as formulating industry standards for seven of the 101 key TCM materials. We also played a meaningful role in drafting two industry group standards, namely Guidelines for the Application of New Technologies in Quality Evaluation of TCM Decoctions (《中藥飲片質量評價新技術應用指南》) and Technical Specifications for Cultivation and Primary Processing Geo-Authentic Chinese Medicinal Materials (《道地藥材栽培及產地加工技術規範》), that integrate modern scientific technologies into the production and quality evaluation of TCM decoctions.

- We completed the "DNA Barcoding System for Species Identification of Chinese Medicinal Herbs" project in partnership with the Institute of Chinese Materia Medica China Academy of Chinese Medical Sciences. This innovative technology, which has been included in both the Chinese Pharmacopoeia (《中國藥典》), utilizes molecular biology techniques to identify and authenticate the species of medicinal materials used in TCM decoctions.

- We were an active participant in numerous national-level research and development projects focused on various critical aspects of production and standardization. A notable example is our participation in the National Key R&D Program for Traditional Chinese Medicine Modernization, which focused on developing automation technology and equipment to streamline the traditional multi-stage processing for multi-material formulations, further advancing the efficiency and consistency of TCM decoction-ready product manufacturing.

Differentiated business model featuring wide product and market segment coverage

We operate a distinctive business model focused on both optimizing our presence in conventional TCM markets and unlocking new growth opportunities. Through over a decade of operations, we have established a solid business foundation and brand reputation serving TCM hospitals and major pharmacies in China by leveraging our outstanding product quality, comprehensive product offerings and robust production capacity. While we continue to deepen these business networks, we also begin tapping into market segments that have not been fully addressed by offering modernized products and solutions to meet the needs of today's small businesses and retail consumers in China and overseas.

Established leadership in major products with TCM hospitals and pharmacy chains

Our extensive TCM hospital network has served as the cornerstone of our historical success, demonstrated by our nationwide leadership in key products. We work with over 1,000 hospitals and medical institutions across over 30 provinces in China, one of our largest customer types, with a revenue CAGR of 17.4% during the Track Record Period. We take pride in our stable relationships with some of the largest and most well-known TCM hospitals in China, including five of the top 20 hospitals ranked in the "2022 Top 500 TCM Hospitals" list released by the Alibi Hospital Management Research Center, including the 2nd ranked Jiangsu Province Hospital of Chinese Medicine, the 13th ranked Affiliated Hospital of Chengdu University of Traditional Chinese Medicine, 14th ranked Henan Provincial Traditional Chinese Medicine Hospital, the 16th ranked Chongqing Hospital of Chinese Medicine and the 20th ranked No. 1 Affiliated Hospital of Guangxi University of Traditional Chinese Medicine.

Our broad TCM hospital coverage has enabled us to establish clear leadership in major product types, including one of the largest market shares for products such as *Fritillaria cirrhosa* (川貝母) and processed *Pinellia ternata* (製半夏), respectively accounting for 15% and 10% of the total purchase volume in China in 2023. In addition, we are leveraging the latest nationwide centralized procurement scheme to include 29 product types, comprising 55 varieties, of our TCM decoction-ready products and to expand the sales network across China. As of the Latest Practicable Date, our products were sold to over 1,000 hospitals and medical institutions in over 30 provinces in China. Leveraging our standardized and scalable manufacturing capabilities and our stringent quality control system, we believe we are well positioned to utilize the nationwide centralized procurement scheme to deepen our penetration in public medical institutions in China.

In addition to TCM hospitals, pharmacies are another major segment in China's TCM decoction-ready product market, with a market share of approximately 20% in 2024. We maintain stable relationship with national pharmacy chains, enabling broad accessibility to our products through their sales networks and to further penetrate the Chinese market. Notably, we have entered into a long-term cooperation agreement with one of the largest pharmacy chains in China since 2013, which has over 16,000 pharmacies in China, and became one of its major suppliers of TCM decoction-ready products. As these pharmacy chains continue to expand their retail presence in the TCM market, our collaboration has been mutually beneficial.

New products and solutions to reach underserved market segments

True to our innovative spirit, we take a forward-thinking approach to explore new avenues for growth, exemplified by our development of new products and solutions and penetration of underserved customers and market segments.

- ***Small businesses and practitioners***. There are over 97,000 small-scale TCM clinics, pharmacies and medical institutions in China, many of whom have significant yet unmet needs in procuring decoction-ready products. We have tapped into this underserved market segment by developing Jinfang Caotang (金方草堂), an online B2B platform dedicated to serving these customers nationwide. Leveraging our comprehensive product portfolio and stringent quality control standards, we are able to meet their frequent and diverse procurement needs as a one-stop solutions provider. Since its launch in January 2024, the number of customers registered on Jinfang Caotang (金方草堂) reached over 6,800 as of December 31, 2025. In addition, in March 2025 we launched an online TCM prescription fulfillment platform, Jinfang Cloud (金方雲), which provides online TCM pharmacy services. By providing direct-to-patient delivery of online TCM prescriptions by registered physicians, we believe that our platform could provide greater convenience and accessibility for patients and offer more competitive pricing compared to traditional hospital pharmacies, while maintaining attractive margins through our streamlined distribution process.

- ***Individual Customers***. Recognizing the demand for high-quality TCM prescriptions and health and wellness, we plan to launch a TCM wellness product platform, Golden Lotus (金色荷花), in April 2025, offering premium TCM wellness products for retail consumption, including single-ingredient *Reishi spore powder* (破壁靈芝孢子粉), *Notoginseng powder* (三七粉), *Fritillaria cirrhosa* (川貝母), *Gastrodia* (天麻), *American ginseng* (西洋參), *Dendrobium* (石斛), *Codonopsis* (黨參), and *Astragalus* (黃芪), among others. As a first step, we are launching Shenqi (參芪) Essence, our inaugural product under the Neautus brand, which is formulated with ginseng and astralagus for sub-healthy individuals and postoperative recovery patients, aiming to offer effective restorative care, immune enhancement, and relief from fatigue and lethargy. We are introducing this product in Hong Kong and we plan to introduce it to Southeast Asian markets, and Chinese Mainland. Its debut marks our expansion in the consumer-oriented herbal health and wellness sector and in the international markets. Targeting this market, we aim to provide products in easily accessible and convenient formats delivered right to the consumer's door.

Strategic expansion in the international markets

Beyond Chinese Mainland, we have our sights set on the global market. With Hong Kong as our touchpoint, we have established strong business relationships with major TCM clinics and pharmacies in Hong Kong and participated in the launch of the Shouchuang TCM Materials Trading Platform to bring high-quality decoction-ready products to Hong Kong and globally. Moreover, we are a member of the "Belt and Road Initiative Traditional Chinese Medicine Development Alliance" and have established presence in Hong Kong, Taiwan, Vietnam, and Malaysia. We have obtained GMP certifications in Vietnam to facilitate further business activities.

Integrated manufacturing and quality control system enabling scalable production and product supply

Quality control represents a critical challenge in the scalable production of TCM decoction-ready products. We abide by a core philosophy that puts quality and integrity above all. In an industry where quality control for a comprehensive product offering is critical yet challenging, we are aware that operating an end-to-end quality control system that meticulously covers every key stage of our operation is crucial to consistent and scalable production and is the bedrock of our business and reputation.

- ***Stringent raw material sourcing***. High-quality TCM decoction-ready products start with raw materials. We have implemented a rigorous raw material sourcing process, with protocols that set out our quality standards, raw material specifications and acceptance criteria. We conduct dual-stage inspection and testing for our medicinal raw materials in accordance with the Chinese Pharmacopoeia (《中國藥典》) and internal protocols. We take a collaborative approach with suppliers that extends beyond conventional sourcing, as we work together to conduct R&D programs on the cultivation of certain medicinal raw materials, which in turn enables us to further enhance the quality of our TCM decoction-ready products. We have been selected as an exemplified enterprise (示范企業) in 2018 to ensure safe and sustainable production of agricultural products, in Sichuan province, one of the only four exemplified provinces for the implementation of GAP supervision, with three of our medicinal raw materials obtaining GAP certification.

- ***Advanced process control capabilities.*** Adhering to the GMP standards in China, our production facilities are designed to implement a process-driven production management process, providing rigorous, oversight across critical value chain segments including procurement, production, inspection, warehousing, and logistics. Notably, we have accumulated specialized process capabilities and expertise in handling toxic medicinal raw materials.

- ***China-leading inspection and testing platform***. We have adopted extensive inspection and testing techniques and processes to ensure that our raw materials and products comply with our stringent quality standards. In 2015, our inspection and testing center was recognized as a "CNAS laboratory" by the China National Accreditation Service for Conformity Assessment. At this laboratory, we conduct comprehensive quality inspections and testing for raw materials, semi-finished products and finished products. Our CNAS laboratory is an accredited lab by the International Laboratory Accreditation Cooperation Mutual Recognition Arrangement and the Asia Pacific Accreditation Cooperation Mutual Recognition Arrangement, enabling us to undertake various calibration, testing and inspection activities on products.

- ***Intelligent quality management system.*** We implement a digitalized and intelligent quality management system across our entire business. In compliance with the regulatory requirements in China, we have established an electronic labeling system with traceability from raw materials to finished products. In addition, we developed and implemented an advanced planning and scheduling system and warehouse management system, which collectively form an intelligent production infrastructure and quality management system. During the Track Record Period, we were awarded the Integration of Informatization and Industrialization Management System Certificate and the "Top Ten Outstanding Application Scenarios of 'Intelligent Transformation and Digitalization' in Chengdu High-tech Zone, underscoring our commitment to technological innovation and digital transformation in the TCM industry in China.

Seasoned and insightful management of industry veterans

We are led by a seasoned and renowned management team that has steered our business direction and strategy since our inception. Our Founder, Chairman and executive Director, Mr. Jiang Yun, is an established figure and experienced voice in the industry, with nearly four decades of experience in pharmaceuticals and TCM. Mr. Jiang has been instrumental in driving our strategic vision and continuous innovation. As a senior engineer, Mr. Jiang holds a master's degree in science from West China Medical Center of Sichuan University. Complementing Chairman Jiang's strategic leadership, our general manager and executive Director Feng Bin contributes over 20 years of comprehensive sales expertise across pharmaceutical and TCM markets. Together, they lead our management team to cultivate a robust ecosystem of industry relationships, technological capabilities, and market insights that position us uniquely at the intersection of traditional Chinese medicine and modern scientific innovation.

Led by our management team's insightful guidance, we have developed a high-caliber workforce that embodies technical excellence and strategic potential across R&D, production, and sales functions. As of December 31, 2025, our key functional departments, including quality control, production and procurement, are led by professionals holding senior engineering certifications, reflecting our commitment to product quality. In addition, key stages of our production process, including raw material inspections, manufacturing management and quality control, are led by employees holding senior engineering certifications. We have also established a nationwide sales team of 195 dedicated professionals, strategically covering major provinces in China. Our dedicated sales team creates a robust foundation for market penetration and channel expansion, enabling us to deliver strong sales performance.

OUR STRATEGIES

Strategically expand market penetration and sales coverage across China

We are actively expanding our sales coverage to further penetrate the China market. We plan to strengthen our presence in existing markets, focusing on customer relationship optimization.

- ***TCM hospital market cultivation.*** We plan to establish dedicated sales forces in major markets in China, including Beijing, Shanghai, Jiangsu, Guangdong and Shandong. Leveraging the inclusion of our products in the nationwide centralized procurement scheme, our sales force will develop nuanced marketing strategies tailored to their local market's characteristics and dynamics, with a focus on TCM hospitals in China. This targeted geographical expansion will significantly amplify our brand awareness and market presence.

- ***Collaboration within leading sales channels***. We plan to leverage third-party collaborations to intensify our business presence in selected markets, particularly within small and medium-sized hospitals and pharmacies. Exemplifying this approach, we have initiated a strategic partnership with a state-owned medical trading company to enhance hospital channel penetration in Guangdong, while simultaneously collaborating with prominent pharmacy chains in China. Through these increasing collaborative efforts, we believe we are able to effectively commercialize our product portfolio, expand distribution channels, and create a robust, nationwide market infrastructure that capitalizes on the strengths of established sales networks.

  We plan to apply [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] to enhance our brand awareness through increasing advertising efforts and [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] to strengthen our sales team to expand our market penetration and sales coverage.

- ***Deepen market penetration***. According to Frost & Sullivan, China's TCM market is fragmented, with over 97,000 market players being small community clinics, township healthcare centers, and TCM clinics and pharmacies. We believe there are significant opportunities in these markets, and we plan to utilize our online B2B platform Jinfang Caotang (金方草堂), to penetrate these market segments. As of December 31, 2025, the number of customers registered on Jinfang Caotang reached over 5,900. We will further deepen the penetration of Jinfang Caotang to attract more small-scale TCM clinics and pharmacies to our platform, with market focuses on Sichuan and Chongqing provinces.

  We plan to apply [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] to strengthen our sales team to expand our market penetration and sales coverage.

Diversify revenue source by cultivating retail market

With the growing awareness of health and wellness, there are significant market potential for retail market. In response to that, we are developing Golden Lotus (金色荷花), an health wellness product platform that provides personalized TCM wellness products through machine learning, analyzing health data to create bespoke wellness and supplement regimens. We will expand our product range with customized offerings that cater to sophisticated consumer preferences, focusing on authentic, high-quality TCM decoction-ready products, as well as offer wellness content and Q&A for users.

In tandem with our online retail platform, we also plan to open brick-and-mortar Neautus stores, starting with locations in major cities such as Chengdu, Beijing and Hangzhou. Through these storefronts, we aim to build up our brand reputation in the retail market by providing offline experiences for consumers. Moreover, we will be able to integrate our retail business with greater online and offline synergies.

We plan to apply [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] for our to-C business. In addition, we also plan to apply [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] to establish flagship TCM product stores and [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] for tailored sales and marketing strategies for the to-C business. We also plan to apply [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] to enhance our brand awareness through increasing advertising efforts. For details, see "Future Plans and [**REDACTED**]."

Continuously expand product offerings to enhance our one-stop solutions

We plan to pursue the following to expand the coverage of our one-stop solutions.

- ***Expand market share for major products.*** Over the years, we have implemented a nuanced product development strategy, extending beyond immediate market opportunities. We will continue to cultivate our high-potential TCM decoction-ready products with distinctive geographical and therapeutic characteristics, including *Fritillaria cirrhosa* (川貝母), *Rhizoma pinelliae preparatum* (法半夏), *Ginger processed pinelliae* (薑半夏), *Dwarf lilyturf* (麥冬), stir-fried *Ziziphi spinosae semen* (炒酸棗仁) and other geographically distinctive products in Sichuan and Western China, as well as toxic TCM decoction-ready products. Leveraging the inclusion of the centralized procurement scheme, we plan to penetrate our major products in all the provinces across China. Through this, we believe we will further expand our market share, enhance our competitive advantages in raw material procurement, and maintain a competitive moat in China's TCM market.

- ***Diversify product varieties.*** We plan to further diversify our TCM decoction-ready product offerings by launching products with new varieties, such as *Penthorum Chinense pursh* (趕黃草), *Fritillaria cirrhosa* powder (川貝母粉) and *Reishi spore powder* (靈芝孢子粉). By maintaining exceptional product quality and implementing continuous market penetration strategies, we aim to progressively capture significant market share for these products in China.

Drive the technological development of China's TCM decoction industry by continuously optimizing and upgrading processing technologies

As a well-established player in China's TCM decoction-ready product industry, we will continue to optimize our processing techniques to guide the technology revolution in the industry.

- ***Production process optimization***. We plan to focus on understanding and addressing feedback through improved production technologies and processes. Our strategic optimization initiative focuses on implementing precision control mechanisms and integrating advanced equipment with highly refined methodological frameworks, designed to elevate our manufacturing capabilities beyond traditional industry standards. In this way, we believe we will be able to develop high-quality and scientifically validated products that can not only meet but anticipate the evolving requirements of the dynamic healthcare market.

- ***R&D collaboration with leading institutes***. We are actively collaborating with leading research institutes in China to participate in national and provincial-level government-funded research projects, facilitating technological advancements in the production of TCM decoction-ready products. By undertaking research projects funded by the Ministry of Science and Technology, National Administration of Traditional Chinese Medicine and MIIT, we have developed, and continuously upgraded key processing techniques in relation to major decoction-ready products, such as processed *Pinellia ternata* (製半夏) and processed *monkshood mother root* (製烏頭). We are also collaborating with leading scientists in this field, including researchers at the Shanghai University of Traditional Chinese Medicine on the quality control of processing Fritillaria cirrhosa and lead professor at the Chengdu University of Traditional Chinese Medicine on key technology applications on ISO research for authentic geographic distinctive TCM products in Sichuan, enabling us to accumulate extensive experience in the production and quality control of TCM raw materials and TCM decoction-ready products and thereby promote the high-quality development of TCM products. Going forward, we plan to undertake more projects through collaborations to further improve our product quality and to drive the development of the TCM industry in China.

Enhance operational efficiency and production capabilities

We are actively promoting the transformation of production by applying automation and digitalized management to enhance the production yield of TCM decoction-ready products and to establish a comprehensive, intelligent production ecosystem.

We plan to invest in production capacity expansion, taking into account the market conditions and customers' demands. We plan to expand our warehouse facilities, construct intelligent production lines for toxic decoction-ready products, and expand and upgrade production lines for non-toxic decoction-ready products. By employing a disciplined approach to investment in production capacity expansion, we aim to optimize our production capabilities, ensuring flexible and responsive manufacturing that can quickly adapt to the evolving market dynamics and customer preferences in the TCM market.

We plan to apply [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] to expand our production capacity of TCM decoction-ready products and enhancing our production system with digital and intelligent capabilities. For details, see "Future Plans and [**REDACTED**]."

Strategically expand our footprint

Capitalizing on our solutions with comprehensive product and service offerings, we are strategically developing our presence in the international markets, with Hong Kong as our touchpoint and established market presence across multiple countries and regions, such as Malaysia, Vietnam and Taiwan. Pursuant to the "Belt and Road Initiative Traditional Chinese Medicine Development Alliance" initiated by the Chinese University of Hong Kong, we aim to promote the integration of our TCM products into the collaborative development strategy of this alliance. On the other hand, we plan to diversify our export portfolio by targeting Southeast Asian markets with TCM decoction-ready products and European and American markets with herbal wellness products. As a first step, we have established a regional hub in Vietnam and obtained GMP certification to facilitate local business expansion.

We plan to apply [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] to build our overseas sales channels in Vietnam and Malaysia and [**REDACTED**]% of the [**REDACTED**] from the [**REDACTED**] for strategic investments and potential acquisitions. For details, see "Future Plans and [**REDACTED**]."

OUR BRAND

Synonymous with trust and quality, our "新荷花" brand has been recognized as a well-known trademark in China (中國馳名商標) since 2007, a testament to our unwavering commitment to setting new benchmarks in the industry. Our long-standing reputation is a culmination of years of devotion to offering the highest quality TCM products and operating at the highest standards. In a fragmented industry plagued with quality inconsistency and lack of standardization, we believe the earned trust of customers is at the heart of our success and sets us apart from peers. We have established "新荷花" as a leading voice and standard-bearer in the industry, which has been instrumental in growing our business and entering new markets.

OUR PRODUCTS AND SERVICES

Under our "新荷花" brand, we deliver high-quality TCM products to our customers. Since our inception, we have focused primarily on decoction-ready products. Building upon our experience in decoction-ready products and accumulated sales network to hospitals, clinics and pharmacies, we are strategically extending our business to the retail market with new revenue growth points.

The following table sets forth a breakdown of our revenue by business line for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Toxic decoction-ready products	192,492	16.8	172,433	13.8	137,626	10.3
Non-toxic decoction-ready products	953,079	83.2	1,076,969	86.2	1,197,081	89.7
Total	**1,145,571**	**100.0**	**1,249,402**	**100.0**	**1,334,707**	**100.0**

Our TCM Decoction-Ready Product Portfolio

TCM Decoction-ready products are pre-processed TCMs designed to be easily seeped or boiled into therapeutic decoctions for consumption. Typically, decoction-ready products are sold to hospitals and medical institutions, medical trading companies, pharmacies, and pharmaceutical companies. The ingredients are then boiled, typically for an hour or more depending on the ingredients, into a liquid pack, also known as a decoction. The decoction process can be done by the healthcare provider or at home by consumers.

TCM Decoction-ready products are the most traditional type of Chinese medicine. The process of taking raw TCM materials and processing them into decoction-ready products is crucial to preserving and enhancing their medicinal functions. While the decoction process is relatively straightforward, pre-processing raw TCM materials so that they are decoction-ready requires a significant body of scientific know-how due to the large variety of decoction-ready medicines in the Chinese Pharmacopoeia (《中國藥典》) as well as the unique characteristics and preparation methods of each product on its own and in combination with other ingredients. As a result, there are very few companies in China that are able to offer a wide range of decoction-ready products at high quality.

We have established ourselves as one of the most comprehensive providers of TCM decoction-ready products in China. As of the Latest Practicable Date, we offered over 770 types and 4,900 varieties of decoction-ready products, encompassing all major medicines used in TCM industry. We are well-known for our expertise in toxic decoction-ready medicines. These products are associated with the most complex and challenging preparations, as well as the highest requirements in terms of quality standards and control.

Toxic Decoction-Ready Products

We are a well-established provider of toxic decoction-ready medicines. As of the Latest Practicable Date, only 28 types of toxic decoction-ready medicines were included in the Medical Toxic Pharmaceuticals Management Procedure (《醫療用毒性藥品管理辦法》), of which we produce ten major types. Toxic decoction-ready medicines have a long-standing tradition in TCM and are among the most representative types of TCM, commonly used in TCM prescriptions.

Given their potent nature, the preparation of toxic decoction-ready medicines involves complex and intricate procedures. Pursuant to the PRC laws, the production of toxic decoction-ready medicines is strictly regulated. Manufacturing companies need to meet stringent qualifications to be eligible and are required to obtain a license from the provincial MPA to handle toxic decoction-ready products. For details of key licenses, permits and certificates relating to our business and operations, please see "Business — Compliance, Licenses, and Permits — Licenses, Approvals and Permits." We pride ourselves on developing the stringent quality standards for toxic decoction-ready medicines, above and beyond what is required under the Chinese Pharmacopoeia (《中國藥典》). We believe this approach increases trust and credibility among consumers, bolstering our reputation and facilitating regulatory compliance. In an industry faced with increasingly stringent quality standards, we are able to capture markets and opportunities through our consistently high quality while peers struggle to meet such standards. Furthermore, a commitment to high standards fosters continuous improvement and a quality-focused culture within the organization, driving our continued market leadership.

The following table sets forth the selected information of our major toxic decoction-ready medicines:

Products		Intended treatment
Rhizoma pinelliae preparatum (法半夏).		Used for conditions such as dry throat, excessive phlegm leading to cough and asthma, phlegm retention causing dizziness and palpitations, wind-phlegm inducing vertigo, and phlegm stagnation resulting in headaches.
Ginger processed pinelliae (薑半夏) . .		Used for conditions such as excessive phlegm causing cough and asthma, phlegm retention causing dizziness and palpitations, wind-phlegm causing vertigo, phlegm stagnation causing headache, vomiting and acid regurgitation, chest and epigastric distension and discomfort.
Rhizoma pinelliae preparata (清半夏) .		Used to treat conditions such as damp-phlegm and cold fluids causing vomiting, acid regurgitation, excessive phlegm with cough and asthma, chest and diaphragm distension, phlegm stagnation causing headaches, dizziness, and insomnia. It is also used externally to reduce abscesses and swelling.
White aconitum carmichaelii (白附片)		Used to address conditions caused by excess heat and dampness and can help clear internal heat, eliminate dampness, reduce inflammation, and detoxify the system.
Black aconitum carmichaelii (黑順片)		

Processed Pinellia ternata (製半夏)

Processed *Pinellia ternata* (製半夏) is our iconic product within our toxic decoction-ready medicine portfolio. Through scientific processing techniques, we effectively break down its main irritating component — special crystalline calcium oxalate raphides — significantly reducing irritation to oral mucosa, throat, gastrointestinal tract, and other tissues, thereby improving medication safety. Our processed *Pinellia ternata* (製半夏) products were recognized by China Association of Traditional Chinese Medicine (中國中藥協會) as a "Unique Processed Chinese Decoction-ready Brand" (獨特炮制中藥飲片品牌). Our processed *Pinellia ternata* (製半夏) products were also recognized as a "Trusted Brand of Traditional Decoction-ready Medicines" (中藥飲片誠信品牌) by Chinese TCM Association, TCM Decoction Committee. Typically, only one product per TCM type receives this award, signifying its market-leading quality. We commenced sales of processed *Pinellia ternata* (製半夏) from the inception of our Company, and it remains one of our best-selling products. In 2023, 2024 and 2025, our revenue generated from sales of processed *Pinellia ternata* (製半夏) amounted to RMB148.6 million, RMB122.0 million and RMB99.6 million, respectively, accounting for 13.0%, 9.6% and 7.5% of our total revenue, respectively.

Processed *Pinellia ternata* (製半夏) is a crucial ingredient in many types of TCM prescriptions, and therefore is highly sought after. It can be used to produce three distinct medicines based on different preparation and processing procedures: It can be used to produced *Rhizoma pinelliae preparatum* (法半夏), *Ginger processed pinelliae* (薑半夏), and *Rhizoma pinelliae preparata* (清半夏); *Rhizoma pinelliae preparatum* (法半夏), is processed with licorice and lime to make it safer to use while maintaining its ability to help clear mucus and phlegm from the respiratory system and treat headaches; *Ginger processed pinelliae* (薑半夏), which is prepared with ginger and alum (a type of mineral compound), giving it strong anti-nausea properties. It's particularly helpful for treating phlegm, nausea and vomiting; and *Rhizoma pinelliae preparata* (清半夏), which is processed with only alum, resulting in a milder medicinal ingredient for treating wet phlegm and coughing.

Rhizoma pinelliae preparatum (法半夏)

Rhizoma pinelliae preparatum (法半夏) is processed *Pinellia ternata* (製半夏) that has been treated with a mixture of alum and other substances. This treatment process aims to reduce the toxicity of raw *Pinellia ternata* and enhance its therapeutic effects to address conditions such as phlegm-dampness syndrome, coughing, and nausea.

We are committed to superior product quality. For our toxic decoction-ready medicines, we not only adhere to the standards stipulated in the Chinese Pharmacopoeia (《中國藥典》) but have also developed more stringent internal standards to ensure the high quality of our products. For details of our quality standards, see "— Quality Control."

Ginger processed pinelliae (薑半夏)

Ginger processed pinelliae (薑半夏), as its name suggests, is raw *Pinellia ternata* that has been processed with ginger. The ginger not only helps to reduce the toxicity of the raw *Pinellia ternata* but also enhances its ability to warm the stomach and prevent vomiting. *Ginger processed pinelliae* (薑半夏) is particularly used for conditions involving cold and dampness in the stomach and for treating nausea and vomiting.

Rhizoma pinelliae preparata (清半夏)

Rhizoma pinelliae preparata (清半夏) is a form of processed *Pinellia ternata* (製半夏) that has undergone a simpler processing method compared to *Rhizoma pinelliae preparatum* (法半夏). This process involves cleaning and drying the raw *Pinellia ternata* tuber without the use of alum. *Rhizoma pinelliae preparata* (清半夏) is used when a milder therapeutic effect is desired. Our *Rhizoma pinelliae preparata* (清半夏) decoction-ready medicines are manufactured using raw *Pinellia ternata* tuber sourced from a Good Agricultural Practices (GAP) certified plantation in Gansu province.

Aconitum carmichaelii (附片)

Aconitum carmichaelii (附片), also known as processed *Aconite root* (製烏頭). The raw form of *Aconitum carmichaelii* (附片) contains toxic alkaloids. Through extensive processing techniques including boiling, steaming and soaking to reduce toxicity while preserving therapeutic properties, it is transformed into a valuable Chinese medicine that excels at dispersing cold, relieving pain and restoring energy. This product is commonly used to treat conditions characterized by cold symptoms, including rheumatic pain, joint inflammation, cardiac weakness, and cold-induced digestive disorders.

We primarily offer two different kinds of *Aconitum carmichaelii* (附片). *White aconitum carmichaelii* (白附片) is traditionally prepared by soaking in salt water, then steaming and drying, therefore retaining a whitish appearance and having milder properties. *Black aconitum carmichaelii* (黑順片) undergoes more extensive processing, including longer cooking with various auxiliary substances and multiple processing cycles. Therefore, it has a darker color and stronger warming properties and is more potent for warming the interior, dispersing cold, reviving energy and strengthening the heart.

Non-Toxic Decoction-Ready Products

As of December 31, 2025, we offer over 760 non-toxic TCM decoction-ready products in China. Many of our products are geo-authentic medicines that are produced in specific regions and are highly renowned for their superior quality and therapeutic effects compared to the same species of herbs grown in other regions. The most widely recognized geo-authentic regions include Sichuan, Zhejiang, and Guangdong provinces, and the Western China region, among others. The unique attributes of these geo-authentic materials, derived from the distinct geographical and climatic conditions in their original regions, position them as highly effective and sought-after ingredients in the TCM industry. A major pain point in non-toxic decoction-ready products is that it is very challenging to meet all of the needs of customers in terms of type, variety, volume and quality. As we continue to scale our operations and enhance our production capabilities, we are well-positioned to meet the increasing demand for high-quality non-toxic decoction-ready products, thereby driving substantial growth in this segment. The table below sets forth selected information regarding our key non-toxic decoction-ready products.

Products		Intended treatment
Fritillaria cirrhosa (川貝母)		Used to clear heat, moisten the lung, resolve phlegm and relieve cough
Dwarf lilyturf (麥冬)		Used to engender fluid, moisten the lung, and tranquilize the mind
Astragalus (黃芪)		Used to strengthen the superficial resistance, induce diuresis and promote drainage of pus and growth of new tissue
Stir-fried *Ziziphi spinosae semen* (炒酸棗仁)		Used to tonify the liver, cause tranquilization, arrest excessive perspiration, and engender fluid
Coptis root (黃連)		Used to relieve internal heat and moisture retention, supporting the heart, stomach, and liver functions
Angelica sinensis (當歸)		Used to alleviate symptoms associated with menstrual disorders, such as dysmenorrhea and irregular menstruation, largely due to its antispasmodic and estrogenic-like properties

Sales of TCM Wellness Products

We also offer a range of products, including single-ingredient decoction-ready products such as *Fritillaria cirrhosa* powder (川貝母粉). Customers may choose to use these products for health maintenance and enhancement in addition to disease treatment, and these products are categorized as TCM decoction-ready products under the Pharmacopoeia of the PRC. Therefore, these products are not classified as health-care food (保健食品) requiring certain certifications or filing procedures for production and sales. We classify our products in accordance with applicable PRC regulations, including the *Notice on Further Regulating the Administration of Raw Materials for Health Food* (WeiFaJianFa [2002] No. 51) (《衛生部關於進一步規範保健食品原料管理的通知》(衛法監發[2002]51號)) and the Administration of Healthcare Food (《保健食品管理辦法》). During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed, such products, regulated as TCM decoction-ready products, are labeled and packaged pursuant to the standards prescribed for TCM decoction-ready products. As both non-toxic decoction-ready products and TCM wellness products are not classified as health-care food under the Notice on Further Regulating the Administration of Raw Materials for Health Food and the Administration of Healthcare Food, no permits or licenses for health-care food are required for their production and sales. Moreover, we have obtained the requisite license and permits for pharmaceutical retail business. As of the Latest Practicable Date, we did not produce and sell any health-care food classified according to the Measures for the Administration of Health-Care Food (《保健食品管理辦法》).

As a new business initiative, we also started selling TCM wellness products through online platform, such as Golden Lotus, in April 2025 in Hong Kong. During the Track Record Period, we only generated minimal revenue from sales of TCM wellness products from our online channels.

These products do not require the complex decoction process associated with TCM decoction-ready products, making them more convenient for direct consumer use. End-customers consume our wellness products on a routine basis as health supplements. We believe this product segment will complement our existing TCM offerings, effectively broadening our revenue streams and enhancing our brand presence among end consumers.

SALES AND MARKETING

Our products are sold to various types of customers, including hospitals and medical institutions, medical trading companies, pharmacies, and pharmaceutical companies. The table below sets out a breakdown of our revenue by customer type for the years indicated:

	For the year ended December 31,					
	2023		2024		2025	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Hospitals and medical institutions	371,904	32.5	461,875	37.0	512,741	38.4
Medical trading companies	385,253	33.6	443,828	35.5	471,769	35.4
Pharmacies	238,449	20.8	210,608	16.9	179,036	13.4
Pharmaceutical companies	149,965	13.1	133,091	10.6	171,161	12.8
Total	**1,145,571**	**100.0**	**1,249,402**	**100.0**	**1,334,707**	**100.0**

We sell our TCM decoction-ready products primarily through our own sales and marketing team directly to hospitals and medical institutions, medical trading companies, pharmacies, and pharmaceutical companies. As a Chengdu-based company, we began our business primarily focused on customers in Sichuan province. Despite the localized nature of this industry, we had been able to extend our sales reach nationwide across over 30 provinces as of the Latest Practicable Date,

which, we believe, is a reflection of our high product quality and our ability to offer a full range of decoction-ready products to serve purchasing needs of customers. We intend to continue to deepen our presence in China to cover more cities and regions as well as smaller hospitals and clinics.

At the same time, we have been gradually expanding our global business. With a mission to make our products available in overseas markets with large Chinese populations, we began our expansion in the international markets by establishing a presence in Hong Kong. As of December 31, 2025, we have built business relationships with 44 hospitals and clinics in Hong Kong to supply decoction-ready products. We have also developed products tailored for other overseas markets such as Malaysia and Taiwan. Our revenue generated from overseas market was RMB45.4 million, RMB56.2 million and RMB45.4 million in 2023, 2024 and 2025, respectively, representing 4.0%, 4.5% and 3.4% of our total revenue, respectively.

Customer Types

Hospitals and Medical Institutions

Hospitals and medical institutions are one of our largest customer segments, accounting for 32.5% 37.0% and 38.4% of our total revenue in 2023, 2024 and 2025, respectively. As of the Latest Practicable Date, we worked with over 1,000 hospitals and medical institutions across over 30 provinces in China primarily through offline channels. Most of the hospitals we serve are Class IIIA hospitals with a TCM department or TCM-focused hospitals. We have established stable business relationships with several industry-leading TCM-focused hospitals in China. We take pride in our long-term relationships with some of the largest and most well-known TCM hospitals in China, including five of the top 20 hospitals ranked in the "2022 Top 500 TCM Hospitals" list released by the Alibi Hospital Management Research Center, including the 2nd ranked Jiangsu Province Hospital of Chinese Medicine, the 13th ranked Affiliated Hospital of Chengdu University of Traditional Chinese Medicine, the 14th ranked Henan Provincial Traditional Chinese Medicine Hospital, the 16th ranked Chongqing Hospital of Chinese Medicine and the 20th ranked No. 1 Affiliated Hospital of Guangxi University of Traditional Chinese Medicine. Most of our sales to public hospitals are facilitated through their public procurement processes, which are typically conducted annually.

Medical Trading Companies

Medical trading companies represent a vital customer segment for us. These companies serve as strategic market access partners who bridge the gap between our production and the fragmented landscape of hospitals, clinics, and pharmacies. They normally consolidate raw materials procured from various TCM decoction-ready product manufacturers, including us, and sell these materials as generic commodities without manufacturer-specific labeling or attribution. This model allows them to offer comprehensive TCM material sourcing solutions to healthcare providers while maintaining flexibility in their supply chain. As advised by Frost & Sullivan, it is an industry norm for TCM decoction-ready companies to engage medical trading companies. TCM decoction-ready products have regional characteristics, and these medical trading companies, through consolidation and integration, are able to aggregate superior product types varieties from different regions, thereby providing hospitals, medical institutions, pharmacies and pharmaceutical companies with a more comprehensive product portfolio that individual manufacturers in specific localities may not be able to offer independently. Revenue generated from medical trading companies represented 33.6%, 35.5% and 35.3% of our revenue in 2023, 2024 and 2025, respectively. Revenue generated from sales to medical trading companies is recognized when we deliver our products to them, e.g. when control of goods or services is transferred to the customers.

We had a buyer-seller relationship with these medical trading companies. Generally, these medical trading companies enter into framework agreements with us for a fixed term and place individual orders subsequently.

Set forth below is a summary of the key terms of such framework agreements.

- *Duration.* Each framework agreement generally has a fixed term of one year, commencing from the effective date specified in the agreement.

- *Orders and Pricing.* The framework agreement normally does not specify the product type/variety, quantity and price, which is only set out in the purchase order for each transaction. We do not impose restrictions or requirements on the resale prices at which the medical trading companies may sell the products to third parties, as we consider these medical trading companies our end-customers.

- *Minimum Purchase Amount.* There is no minimum purchase quantity requirement imposed on the medical trading companies under the framework agreements.

- *Delivery.* We are responsible for delivering the products to the locations designated by the medical trading companies. All transportation costs incurred in connection with such deliveries are normally borne by us.

- *Product Return.* Product returns are only accepted under limited circumstances, such as in the event of product quality issues. The specific conditions and procedures for returns are set out in the relevant agreements.

- *Payment.* The medical trading companies are required to pay the full purchase price for the products within the period stipulated in the agreement, following receipt of the products.

- *Termination.* The medical trading companies are not permitted to unilaterally terminate the framework agreement without just cause, as defined in the agreement.

For transactions under each framework agreement, medical trading companies will place separate purchase orders with us. Each transaction is independent and completed upon delivery and payment, with no continuing obligations between the parties. Upon completion of each purchase, title and ownership of the products pass entirely to these companies, and we have no visibility, control, or influence over their subsequent business activities. We do not impose any restrictions on geographical sales regions, customer segments, pricing policies, or inventory management practices, which are standard provisions in distribution agreements. In 2023, 2024 and 2025, we had 549, 606 and 654 medical trading companies that purchased our products, including 126 medical trading companies that purchased our products in each of 2023, 2024 and 2025. We generally grant them credit terms of four months and we strictly monitor the collection of their trade receivables with us.

These medical trading companies aggregate our TCM decoction-ready products with similar products from other TCM decoction-ready suppliers. This aggregation practice means that when these companies resell the products, they are sold as commodity TCM decoction-ready products without preservation of our brand identity, or quality certifications. End-users purchasing from medical trading companies cannot differentiate our products from those of other suppliers, as the products are commingled and sold as generic TCM decoction-ready pieces.

To the best knowledge of our Directors, each of these medical trading companies is an independent third party and does not have any other relationship with us (including being controlled by our former or current employees, using our brand name or receiving any material advance or financial assistance).

Pharmacies

During the Track Record Period, our TCM products were sold to over 600 pharmacies in over 30 provinces across China. In 2023, 2024 and 2025, we sold our products to 135, 406 and 209 pharmacies, respectively.

We have built stable relationships with large TCM pharmacy chains in China. For example, we are collaborating an A-share listed retail pharmacy chain in China, which has over 16,000 retail stores in China. We are one of its major TCM decoction-ready product suppliers. In addition to large pharmacy brands, we also serve regional businesses as well as independent small businesses, which we believe is strategically important for growing our penetration.

Pharmaceutical Companies

During the Track Record Period, we also sold our TCM products to large manufacturers of TCM preparations. These manufacturers used our products as intermediate materials to make ready-for-consumption TCM products that were then sold to end consumers. We established strong relationships with several major TCM preparations manufacturers with nationwide sales coverage.

Key Terms of Sales Agreements

We normally enter into standard purchase agreement with our customers. Set forth below is a summary of key terms of the agreements with hospitals and medical institutions.

- *Duration*. Our standard sales agreement typically has a term of one year. In some cases, we may enter into sales agreements with our customers for terms ranging from two to three years.

- *Orders and Pricing*. Customers typically provide order details specifying product names, varieties and quantities. For our sales to public hospitals, prices are typically determined at the time of contract signing. For other customers, prices are determined on a case-by-case basis. In these instances, we are required to respond with a price quotation within 24 hours after receiving the customer's order details. Once the order information is confirmed by both parties, we proceed with shipment preparations.

- *Quality Standards and Requirements.* All TCM products must adhere to the current Chinese Pharmacopoeia standards or relevant provincial standards. Each product must be accompanied by a quality certificate and appropriate packaging.

- *Delivery.* We are responsible for delivering the products to the customer's warehouse. All delivery costs, including insurance, are borne by us.

- *Acceptance Procedure.* Customers must inspect the goods upon arrival and confirm if they meet the quality standards. Any discrepancies or damages must be reported immediately for replacement or return. If not inspected at the time of delivery, customers typically have three days to complete the inspection.

- *Product return.* We normally do not allow our customers to return our products unless there are product defects.

- *Payment.* We generally grant a credit term of 90 to 150 days to our customers with good credit standing, except for hospitals, which we normally grant longer credit terms.

- *Termination.* Customers cannot unilaterally terminate their contract without just cause.

Our Recently-Launched Platforms

As health-conscious consumers seek greater transparency and authenticity in TCM products, we are observing growing demand in the TCM market and we have recently launched several platforms through WeChat mini program and mobile applications, aiming to further diversify our revenue source.

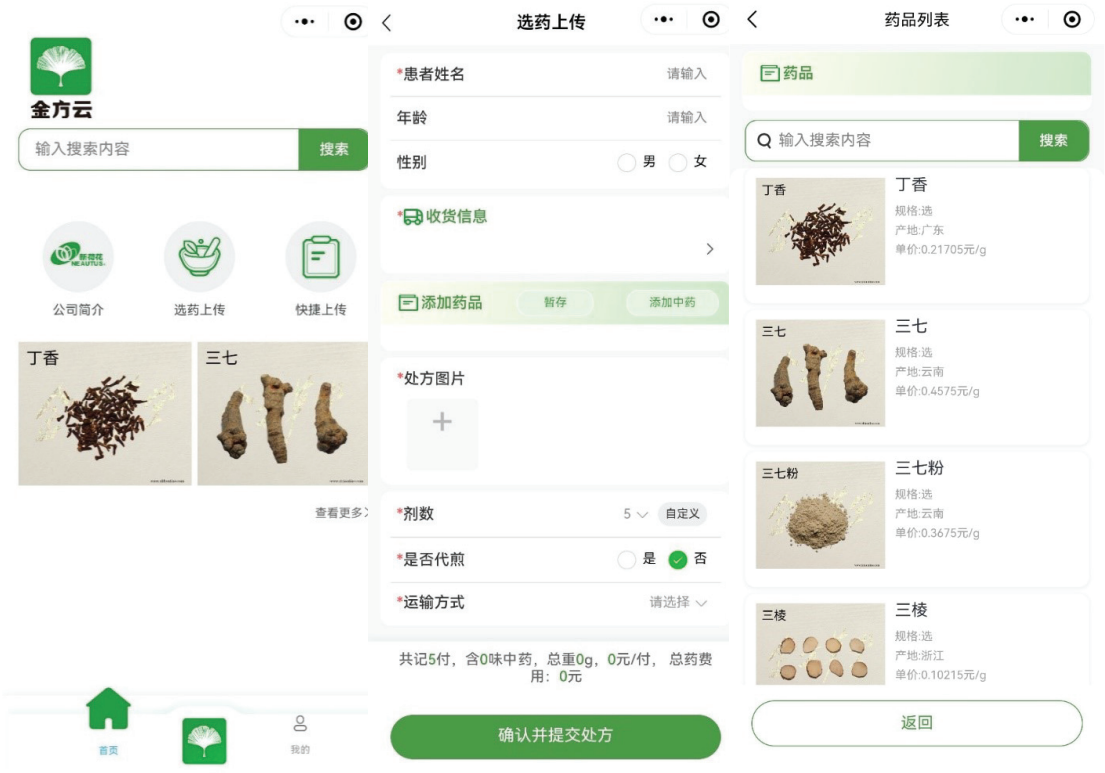
Jinfang Caotang (金方草堂)

Typically, smaller businesses procure decoction-ready products from agents or trading companies, which may not be cost-efficient given their lower purchase volumes. Moreover, the business model of small-sized clinics and pharmacies is shifting towards O2O with consumer expectations of expedited shipping. We launched Jinfang Caotang (金方草堂) through WeChat mini program and mobile applications in January 2024, which is our online B2B sales platform with the aim to cut out the middlemen and enable small-sized clinics and pharmacies to facilitate their small orders in relatively high frequency. With one of the most comprehensive portfolios of decoction-ready products, we believe we are better positioned for this online business as we are able to supply almost all the needs of customers while ensuring product quality. Leveraging our three warehouses in Chengdu, Zhengzhou and Urumqi, along with third-party logistics service providers, our Jinfang Caotang (金方草堂) platform serves customers nationwide. We ensure delivery to our online customers within three to four days after successfully placing their orders. This direct sales channel not only benefits small businesses but also enables us to reach a broader range of underserved customers and establish our brand presence. As of the Latest Practicable Date, we offered over 500 SKUs through online sales to merchants. The user interference of Jingfang Caotang is set forth as follows.

For the year ended December 31, 2024, revenue increased to RMB3.6 million, representing approximately 0.3% of our total revenue, with a gross profit margin of about 22.26%. For the year ended December 31, 2025, revenue further increased to RMB10.2 million, representing approximately 0.8% of our total revenue, with a gross profit margin of approximately 27.3%. Based on management's projections, revenue from this digital sales platform is expected continue to increase, with its gross profit margin remaining stable. Although the platform currently contributes a relatively small portion of total revenue, it is expected to gradually expand direct online sales to small- and medium-sized TCM clinics, enhance overall sales efficiency, and complement the existing offline distribution network.

Jinfang Cloud (金方雲)

Jinfang Cloud is our online TCM medicine platform through WeChat mini program. We officially launched Jinfang Cloud in March 2025. Users of the platform can upload their prescriptions on Jinfang Cloud. Afterwards, we provide online pharmacy services by fulfilling their prescription and providing decoction services for patients, so that they can purchase ready-to-use TCM medicine directly from us. In this way, we allow patients to purchase high-quality ready-to-use TCM products after they receive their prescriptions. We believe Jinfang Cloud presents promising market prospects as public recognition of traditional Chinese medicine continues to grow alongside increasing demand for convenient, efficient healthcare services. The following image illustrates the user interference of Jinfang Cloud.



As a first step, our customers through Jinfang Cloud are patients, who directly purchase TCM decoction-ready products based on their prescription uploaded. In this way, we do not pay, or receive fees from hospitals and physicians and therefore all of our customers are patients. We also plan to enter into strategic collaboration with medical institutions in the future, allowing hospitals to upload prescription to the Jinfang Cloud directly. In the second phase, we will charge hospitals for service fees using the Jinfang Cloud and therefore both patients and hospitals will be our customers.

As of the Latest Practicable Date, Jinfang Cloud remained in a ramp-up stage and we did not record meaningful revenue from this platform. As this platform continues to grow, we believe this will further diversify our revenue. Further, as we directly sell our TCM decoction-ready products to patients, we believe this platform will enable us to enjoy a relatively higher profit margin.

Golden Lotus (金色荷花)

Recognizing the demand for high-quality TCM prescriptions and health and wellness, we are gradually stepping into the retail market. We launched a TCM health supplement platform, Golden Lotus (金色荷花), in April 2025 through WeChat mini program offering premium TCM wellness

and health supplement products for retail consumption, including single-ingredient *Reishi spore powder* (破壁靈芝孢子粉), *Notoginseng powder* (三七粉), *Fritillaria cirrhosa* (川貝母), *Gastrodia* (天麻), *American ginseng* (西洋參), *Dendrobium* (石斛), *Codonopsis* (黨參), and *Astragalus* (黃芪), among others.

We are launching ShenQi (參芪) Essence, our inaugural product under the Neautus brand, which is formulated with ginseng and astralagus for sub-healthy individuals and postoperative recovery patients, offering effective restorative care, immune enhancement, and relief from fatigue and lethargy. We are introducing this product in Hong Kong and selected Southeast Asian markets. As this platform continues to grow, we believe this will allow us to enjoy higher gross profit margin in the sales of these premium TCM products. The following image illustrates our Shenqi Essence product.

We only collected data necessary for the use of our services through these recently-launched platforms, including information about our enterprise and individual users. For our Jinfang Cloud (金方雲) and Golden Lotus (金色荷花) platforms, we collected certain user personal data such as user identity and personal prescriptions. We have established privacy policies to inform users about the rules for processing personal information and obtain their consent for personal information collecting and processing activities. We have also established comprehensive internal rules and manuals regarding data privacy and security management, covering data collection, storage, deletion, classification and emergency incident response measures. We strictly encrypt sensitive data and prohibit direct access to production data. Our comprehensive data backup strategy ensures real-time synchronization of core data to off-site cloud storage. We have implemented network isolation measures, defined security zones, and established internal access restrictions for core business systems. Our access management system is tailored for different personnel, featuring hierarchical access control and approval procedures for temporary access, while restricting access to production databases. Additionally, we have deployed firewalls to prevent external attacks. To further enhance our security posture, we regularly provide cybersecurity awareness training for our employees, equipping them with the knowledge and skills necessary to recognize and respond to potential cyber threats. As advised by our PRC Data Compliance Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant data privacy and cybersecurity regulations in all material aspects.

Marketing Strategies

As we believe the market competition in this segment is mainly based on the quality, safety, reliability, and curative efficacy of TCM products, we focus on direct marketing by communicating the quality and efficacy of our products to Chinese medical practitioners, while emphasizing reliability, safety, and enhanced convenience to patients. This approach helps establish strong brand recognition among both our customers and end-consumers. We have maintained stringent control during production over the quality of our TCM products, placing particular emphasis on their

quality consistency and curative functions. Please see "— Quality Control" for further details. This consistent effort in improving the safety, quality, and efficacy of our TCM products is effective in establishing a loyal customer base and also helps to minimize the costs of marketing. In addition to regular visits to our existing customers, our marketing and sales team also prepares and distributes promotional materials on our TCM product.

We adopt a phased sales and marketing strategy that taking into account the characteristics of each market. At the early stage of our business, we focused on specific provinces such as Sichuan, Guangdong, and Guangxi. In Guangdong province, we have formed a partnership with a state-owned medical trading company. This collaboration enables us to leverage its extensive distribution and delivery network, ensuring efficient and widespread sales of our products. In other provinces, where hospitals play a predominant role, such as Shandong, our initial focus will be on targeting leading hospitals in the TCM market. By establishing strong relationships with top-tier hospitals, we aim to build a solid reputation and trust among medical practitioners. Following this, we will expand our efforts to include other hospitals and pharmacies, broadening our customer base and enhancing our market penetration. This strategic approach ensures that we can effectively introduce our products and services to new markets while maintaining a high standard of quality and reliability. Our phased approach allows us to strategically build our presence in key markets before progressively entering other provincial markets. Our ultimate goal is to create a robust and extensive sales network that spans the entire country, ensuring that our products are accessible to a broad range of consumers and healthcare providers.

Sales and Marketing Force

We have a well-established nationwide network of sales representatives. We strive to build a highly professional and stable sales and marketing force to facilitate the promotion of not only our products but also decoction-ready TCM products in general. Our sales representatives mainly focus on promoting our TCM products to major leading hospitals nationwide. As of December 31, 2025, we had 13 sales teams comprising a total of 195 sales representatives spanning across over provinces in China and covering 1,728 hospitals and medical institutions, medical trading companies, pharmacies, and pharmaceutical companies.

Our sales and marketing force is also organically structured with vertical management covering all aspects of sales. Above our sales teams, we have established a marketing management center, led by our general manager, responsible for coordinating and deploying our annual sales efforts among different sales teams. Our sales personnel from respective sales teams directly engage with clients. If clients have specific requirements regarding products, we formulate specialized procurement and production plans to meet those needs. We have also established a sales support department, which is primarily responsible for the sales support and after-sales services.

Sales Rebates

We provide sales rebates to certain customers as volume-based incentives. These customers become eligible for sales rebates once their purchased product quantity exceeds the threshold specified in their respective contracts. Customers can apply these sales rebates towards future purchases of our products of their choosing. According to Frost & Sullivan, our terms for these performance-based sales rebates conform to industry norms. As of December 31, 2023, 2024 and 2025, we have made provisions for sales rebates amounting to RMB2.4 million, RMB4.6 million and RMB1.2 million, respectively. For the accounting treatment of sales rebates, see "Financial Information — Material Accounting Policy Information and Critical Judgments and Estimates — Material Accounting Policy Information — Revenue Recognition — Revenue from Contracts with Customers — Sales Rebates."

Sales Return Policy

We generally only permit defective products or products damaged during shipping to be returned to us. In 2023, 2024 and 2025, our sales returns represented 1.6%, 1.7% and 3.2% of our total revenue, respectively. As of December 31, 2023, 2024 and 2025, we have made provisions for sales return amounting to RMB9.3 million, RMB6.1 million and RMB8.9 million, respectively. We believe that our sales return policy is in line with the practice of the relevant industry in China. Our Directors believe that the risk of channel staffing with our customers is low, considering that (i) we generally do not require a minimum purchase amount, nor do we have any sales targets with our customers; and (ii) we only recorded minimum sales returns during the Track Record Period, as we only allow our customers to return our products if there are product defects.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material recalls of our products and we were not subject to: (i) any material fines, material negative findings, mandatory product recall orders, material product liability exposure or other penalties from government authorities or other regulatory bodies, (ii) any material product return requests from our consumers or material complaints from consumers in respect of the quality of our products, or (iii) any incidents of quality control system failure which had resulted in a material adverse impact on our business operations or our reputation. During the Track Record Period, we did not receive any material complaints from consumers in connection with product quality.

Seasonality

We have historically experienced higher sales of our TCM products in the PRC in the second half of each year as compared to those in the first half of the year. This seasonality is the result of a combination of several factors, including Chinese New Year holidays in the first quarter.

Pricing

The TCM decoction-ready industry is regulated by the NMPA. Most of the provinces in the PRC have included TCM medicines, including TCM decoction-ready products into their respective Provincial Medical Insurance Drugs Catalogues. As of the Latest Practicable Date, a total of over 640 types of our TCM decoction-ready products had been accepted into the Provincial Medical Insurance Drugs Catalogues in 31 provinces, municipalities, and autonomous regions in the PRC.

We set the prices of our products with reference to a number of factors, such as expected profit margins, prices of raw TCM materials, levels of market supply and demand for our products, relevant government policies, and prices of competing products. Our relevant departments meet regularly to evaluate the market conditions and discuss the need for price adjustments where necessary. In 2023, raw material procurement prices increased significantly due to market fluctuations; however, starting from 2024, the prices of TCM raw materials have steadily decreased. We believe we are able to manage raw material price fluctuations through two measures. For the majority of customers, we do not enter into fixed-price procurement agreements. Instead, under our long-term procurement agreements, prices are quoted on an order-by-order basis. Transactions proceed only when the quote is accepted by the customer. We only agree to fixed pricing for a limited number of hospital customers per their request, and are eligible to renegotiate contract prices if needed. We also conduct continued analysis on price trends and make strategic volume purchases from time to time. For a discussion of the risks associated with fluctuations in raw material prices, see "Risk Factors — Risks Relating to Our Business — We rely on a stable supply of quality raw materials to produce our products. Any decrease in the supply of these raw materials could materially and adversely affect our business, financial condition and results of operations. Our efforts to secure a stable supply of raw materials may not be successful."

Government-Funded Programs in China

We are subject to a number of regulations and policies with an aim to regulate medical and drug pricing practices, including centralized procurement scheme, pricing proposals for TCM products, the NRDL, and the provincial medical insurance drug catalogue. See "Regulatory Overview — Laws and Regulations Related to Drug Operations," "Regulatory Overview — Regulations on centralized procurement" and "Regulatory Overview — Two-Invoice System."

Centralized Procurement Scheme

The centralized procurement scheme is a national initiative launched by the National Healthcare Security Administration (NHSA) and implemented through provincial alliances (e.g., the Shandong-led national alliance). It aims to reduce healthcare costs, improve product quality and traceability, and consolidate the fragmented TCM industry. A two-stage bidding process is adopted under the scheme. In the first stage, bidders submit offers below a ceiling price based on historical data. The top 30% of bidders, evaluated based on supply capacity, traceability, and other factors, proceed to the second stage. According to Frost & Sullivan, final winners must either (i) offer a price at least 20% lower than the highest valid bid, or (ii) bid no more than 1.2 times the lowest group price. In the 2024–2025 cycle, the scheme covers 45 high-demand TCM decoction-ready types, with up to 50 winning manufacturers per variety, selected from 598 pre-qualified companies. Procurement volumes are based on 80% of self-reported demand from public hospitals. Winning prices are fixed under one-year contracts, which may be extended for an additional period within one year. All public hospitals are required to procure through the centralized procurement scheme, while designated private medical institutions may participate on a voluntary basis. Settlement is made directly by medical insurance funds within 120 days, and credit terms follow NHSA guidelines. The scheme also features a comprehensive evaluation system that prioritizes quality and supply stability. Key considerations include (i) full-chain traceability systems, (ii) use of regionally certified medicinal materials, and (iii) ownership or control of cultivation bases to ensure stable supply.

In 2024, the centralized procurement scheme for TCM decoction-ready products was expanded to all the provinces in China, which included 45 TCM decoction-ready varieties. In this round of procurement, we submitted bidding tenders for 30 varieties, of which 29 product types comprising 55 varieties was selected for the centralized procurement scheme. For product types included in the centralized procurement regime, hospitals and medical institutions shall only procure from suppliers that are selected in the centralized procurement scheme. As of December 31, 2025, we had received orders from 1,302 public hospitals and medical institutions in over 20 provinces, including 1,217 new customers with a total confirmed procurement orders amounting to approximately RMB20.9 million under the centralized procurement regime. See "Risk Factors — Risks Relating to Our Business — Our business may be affected by the TCM centralized procurement scheme."

We enter into standardized purchase agreements with hospitals under the centralized procurement scheme. Pursuant to these contracts, we, as a selected supplier, are required to supply the selected products directly or through qualified distributors at the tender-awarded varieties, origin and prices. We shall ensure timely and sufficient delivery of the selected products that meet the required quality standards and remaining shelf life. Payments are settled through direct reimbursement from the medical insurance fund in accordance with relevant government policies. The contract term is typically one year, and we may be subject to contractual penalties for any breach, including failure to supply or deviation from agreed terms.

Since 2025, these 29 products are included in the centralized procurement scheme within over 20 provinces in China. Except for three product types, the inclusion of these products in the centralized procurement scheme resulted in bidding prices that were approximately 8% to 64% lower than our average selling prices in 2024. However, due to the phased implementation approach adopted by hospitals and medical institutions for centralized procurement, many hospitals and medical institutions only began procuring at the centralized procurement bidding prices in mid-2025. Consequently, our average selling prices for these 29 products in the years ended December 31, 2025 decreased by 25.8% compared to our average selling prices in 2024. Prior to the inclusion of the nationwide centralized procurement scheme, for the 29 products currently included in the centralized procurement scheme, for the years ended December 31, 2023, 2024, 2025, our revenue generated from the sales of these products amounted to RMB31.9 million, RMB48.7 million and RMB30.0 million respectively, representing only 2.8%, 3.9% and 2.3% of our total revenue, respectively. During the same years, our sales volume of such products was

approximately 295 tonnes, 315 tonnes and 295 tonnes, respectively. For other products sold outside the the centralized procurement scheme, for the years ended December 31, 2023, 2024, 2025, our revenue generated from the sales of these products amounted to RMB295.5 million, RMB205.8 million and RMB410.6 million, respectively. During the same years, our sales volume of such products was approximately 1,896 tonnes, 2,283 tonnes and 2,642 tonnes, respectively.

For the remaining 16 products that were not selected in the centralized procurement scheme, the Company retains eligibility to sell these products to both public and private hospitals and medical institutions. Under the current regulatory framework governing centralized procurement, products winning bids receive procurement priority in public medical institutions. However, public medical institutions may continue to procure non-winning products at negotiated prices for quantities exceeding agreed purchase volumes or for product varieties differing from those listed in the centralized procurement catalogue. In 2023, 2024 and 2025, revenue generated from these 16 products amounted to RMB26.3 million, RMB21.8 million and RMB14.7 million, representing approximately 2.3%, 1.7% and 1.1% of our total revenue, respectively.

We believe the inclusion of TCM decoction-ready products will not have a material and adverse impact on our business.

- The 29 varieties of TCM decoction-ready products currently included in the centralized Revenue generated from these products only accounts for 2.8% and 3.9% of our total revenue in 2023 and 2024, prior to the launch of the nationwide centralized procurement scheme, and accounts for 2.3% of our total revenue in 2025, after the launch of the nationwide centralized procurement scheme. Among these product types, only two product types, namely Dwarf lilyturf (麥冬) and Angelica sinensis (當歸) contributed to over 1% of our revenue in 2024.

- For the 16 varieties of TCM decoction-ready products for which we did not win bids under the centralized procurement scheme, such products accounted for only approximately 2.3%, 1.7% and 1.1% of our total revenue in 2023, 2024 and 2025, respectively. Even though we did not win bids for these products, we remain eligible to sell them to public medical institutions under the centralized procurement regime. Accordingly, our Directors believe that the failure to tender for, or the unsuccessful bids for, these products would not have a material adverse impact on us.

- In practice, different types of TCM decoction-ready products are not interchangeable. Given their distinct characteristics and pharmacological profiles, a single TCM prescription typically incorporates over ten different types and there are no less than 300 types of TCM decoction-ready products commonly used in medical prescriptions. Consequently, it is impractical for hospitals and medical institutions in China to source these products solely from a centralized procurement catalog.

- The centralized procurement of TCM decoction-ready products is conducive to enhancing industry integration. As a leading enterprise in the TCM industry, we may benefit from this trend, according to Frost & Sullivan. We anticipate that we can leverage the centralized procurement regime to expand our sales coverage and enter provinces where we currently have lower presence, as evidenced by the 1,217 new hospitals and medical institutions we entered into collaboration with as of March 31, 2026 with a total confirmed procurement orders amounting to approximately RMB32.9 million under the centralized procurement regime.

National Drug Reimbursement List

TCM decoction-ready products were first included in the NRDL in 2009. In 2019, the NRDL included approximately 892 types of TCM decoction-ready products and since then, the list remained relatively stable, with over 95% of the included types unchanged. As of the Latest

Practicable Date, over 890 types of TCM decoction-ready products were included in the NRDL. Inclusion in the NRDL and provincial catalogues increases market access and sales volume for the our key products, notwithstanding that the inclusion of the NRDL may result in a decrease of its sales price. During the Track Record Period, we had over 600 products included in the NRDL and provincial medical insurance drug catalogues, which remained relatively stable during the Track Record Period. As such, during the Track Record Period, we did not make changes to averaging selling price of our products as a result of the NRDL and our revenue, profitability and financial performance are not materially and adversely affected by the NRDL. Our revenue generated from such products was RMB975.5 million, RMB1,090.9 million and RMB1,095.9 million for the years ended December 31, 2023, 2024 and 2025, respectively, representing approximately 85.2%, 87.3% and 82.1% of our total revenue for the respective years. The increase in our revenue generated from sales of TCM decoction-ready products included in the NRDL was primarily attributable to the increase in their sales, as our sales network continue to grow. Considering that the products included in the NRDL are relatively stable, our Directors are of the view that the NRDL did not have a material impact on the fluctuations of our results of operations during the Track Record Period.

Two-Invoice System

Currently, TCM decoction-ready products are exempted from China's Two-Invoice System in several provinces. As advised by Frost & Sullivan, this exemption stems from several fundamental characteristics of the TCM decoction-ready supply chain:

- ***Complex and Multi-Tiered Supply Chain.*** The sourcing of raw medicinal herbs relies heavily on dispersed individual growers and medical trading companies. These materials undergo multiple stages of preliminary processing, consolidation, and distribution before reaching licensed decoction-ready manufacturers. This inherent complexity makes it impractical to enforce the simplified two-invoice distribution model applied to standardized chemical drugs.

- ***Supply Stability.*** While upstream raw herb price volatility significantly impacts costs, the non-standardized nature of decoction pieces allows terminal sellers flexibility to adjust end prices, reducing the necessity for Two-Invoice System-driven cost control within this segment; consequently, industry practice and regulatory understanding recognize TIS as unsuitable.

Our PRC Legal Advisors conducted a legal research, and based on publicly available information, as of the Latest Practicable Date, around 11 provincial regulatory authorities had explicitly stated that TCM decoction-ready products are not subject to the Two-Invoice System, therefore our TCM decoction-ready products are not subject to the relevant laws and regulations governing the Two-Invoice System in such 11 provinces. For the remaining provinces, while no explicit laws or regulations currently mandate the application of the Two-Invoice System to TCM decoction-ready products, as advised by our PRC Legal Advisors, the Group needs to comply with the relevant laws and regulations governing the Two-Invoice System pursuant to the Circular on Issuing the Implementing Opinions on Carrying out the Two-invoice System for Drug Procurement among Public Medical Institutions (for Trial Implementation) (《印發<關於在公立醫療機構藥品採購中推行"兩票制"的實施意見(試行)>的通知》), which does not stated that TCM decoction-ready products can be exempted from the Two-Invoice system. As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, we were not subject to any penalties due to any violation of the two-invoice system, nor has it been disqualified by drug procurement institutions from bidding, winning bids, or delivering drugs, or been included in the list of adverse records for drug procurement, and we are in compliance with the Two-Invoice System in all material respects.

Moreover, our PRC Legal Advisors conducted the desktop searches on National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), the website of China Judgments Online (中國裁判文書網), the website of China Enforcement Information Publication (中國執行信息公開網) and Credit China (信用中國), during the Track Record Period and up to the Latest

Practicable Date, no records were found indicating that the Company was involved in litigation disputes arising from centralized drug procurement activities, or imposed any administrative penalties due to any violation of the two-invoice system. Considering the above, our PRC Legal Advisors are of the view that we are in compliance with the Two-Invoice System in all material respects across all provinces in which we operate.

Zero Markup Policy

On October 20, 2019, the State Council issued the Opinion on Promoting the Inheritance, Innovation, and Development of Traditional Chinese Medicine (《關於促進中醫藥傳承創新發展的意見》), which proposed studying the potential removal of price markups for TCM decoction-ready products. Subsequently, on December 14, 2021, the National Healthcare Security Administration and the National Administration of TCM jointly issued implementation guidelines stipulating that public medical institutions must limit their markup on TCM decoction-ready products to a maximum of 25% above procurement cost when sourced through authorized channels.

Under the current regulatory framework, public medical institutions are permitted to apply a markup not exceeding 25% on the actual purchase price of TCM decoction pieces. This policy affects downstream pricing at the institutional level rather than manufacturer pricing. We primarily sell our products to hospitals, distributors, and pharmacies at ex-factory or wholesale prices and does not control or influence downstream pricing decisions. Our product pricing is determined independently based on market dynamics, including demand conditions, product quality differentiation, production costs, and competitive positioning, and is not subject to direct administrative price controls at the manufacturer level. Given that TCM decoction pieces are clinically essential products with established therapeutic value and consistent demand, the 25% markup limitation at the institutional level does not materially adversely impact our revenue generation, profitability metrics, or operational performance. The policy primarily affects the end-user pricing rather than our realized prices. Furthermore, our market-leading position, extensive product portfolio, and diversified customer base across public hospitals, private medical institutions, and retail pharmacies provide resilience against potential policy adjustments and ensure stable and sustainable growth trajectory under the existing regulatory framework or potential future policy modifications.

Our Directors have confirmed that we are in full compliance with all applicable national and provincial regulations regarding price markups. The current regulatory framework governs institutional markups rather than manufacturer pricing, thereby not directly constraining our pricing flexibility or margin structure.

Third-Party Payment Arrangements

Historically, some of our customers, primarily TCM pharmacies and clinics (individually or collectively, the "**Relevant Customer(s)**") settled their payments with us through accounts of third-party payors designated by these Relevant Customers at their requests (the "**Third-Party Payment Arrangement(s)**"). During the Track Record Period, third-party payors designated by the Relevant Customers primarily included their legal representative, employees, spouses and other family members, and business partners. For additional information, see also "Risk Factors — Risks Relating to Our Financial Performance —We are subject to various risks relating to third-party payment arrangements."

In 2023, 2024 and 2025, a total number of 45, 770 and 131 Relevant Customers in China utilized the Third-Party Payment Arrangements to settle payments with us, respectively. The significant increase in the number of customers utilizing Third party payment arrangements was primarily due to the launch of Jinfang Caotang in January 2024 and many small business enterprises utilized third party payment arrangement for their purchases through Jinfang Caotang. During the same years, the aggregate amount of payments from their designated third-party payors was RMB3.7 million, RMB5.0 million and RMB0.9 million, respectively, representing approximately

0.3%, 0.4% and 0.1% of our total revenue. Throughout the Track Record Period, no individual Relevant Customers made material contribution to our revenue. To our best knowledge, the Relevant Customers requested to utilize the Third-Party Payment Arrangements to settle payments with us for convenience and flexibility. These Relevant Customers commonly opted for settlements through personal accounts held by designated third-party payors, such as their legal representatives, employees, spouses and other family members, and business partners. As confirmed by Frost & Sullivan, it is not uncommon for small business TCM pharmacies and clinics to use third-party payors to settle corporate transactions with their suppliers due to convenience and flexibility.

Our Directors confirm that, during the Track Record Period, (i) none of the third-party payors designated by the Relevant Customer during the Track Record Period is a connected person of our Group and such designated third-party payors are independent from any of our Group's Directors, senior management and Shareholders, (ii) the Third-Party Payment Arrangements were initiated by the Relevant Customers, rather than our Group for the purpose of circumventing any applicable laws and regulations and confirmation have been obtained from all the third-party payors confirming the Third-Party Payment Arrangements, (iii) our Group did not participate in any other forms of such arrangement, (iv) our Group did not provide any discount, commission, rebate or other benefits to any of the Relevant Customers to facilitate or encourage the Third-Party Payment Arrangements, (v) the pricing and payment terms of the agreements we entered into with the Relevant Customers were in line with those customers not involved in the Third-Party Payment Arrangements, (vi) all payments received under the Third-Party Payment Arrangements were appropriately recorded following accounting procedures and policies, and (vii) during the Track Record Period and up to the Latest Practicable Date, we were not requested to refund funds, and our Group had not been subject to any actual or pending disputes or administrative penalties related to the Third-Party Payment Arrangements during the Track Record Period and up to the Latest Practicable Date.

Starting from March 2025, we have ceased the Third Party Payment Arrangements and enhanced our internal control measures to restrict the occurrence of Third Party Payment Arrangements, including:

- requiring all of our existing and new customers to settle payments with us through their own bank accounts, and no third-party payors would be allowed;

- developing and maintaining a whitelist of permitted bank accounts in China, which includes only the bank accounts belonging to individual customer or customer entities, as applicable, who executed the relevant purchase order, upon review by our dedicated finance and internal control teams. In the event a customer initiates a payment request, the payment will go through and we will arrange delivery only if the paying account is on our whitelist of permitted bank accounts; and

- implementing internal control measures to ensure our customers' compliance with our payment settlement requirements such as requiring them to confirm the use of their own bank accounts for payment settlement for each order placed in our system, and assigning dedicated employees to conduct periodic inspections to assess the effectiveness of our internal control system.

Our Directors are responsible for formulating and overseeing the implementation of internal control measures and the effectiveness of our quality management system, promoting compliance of our new customers. We have engaged an independent third-party consultant (the "**Internal Control Consultant**") to perform a review over selected areas of our internal controls and completed follow-up reviews in March 2025 (the "**Internal Control Review**"), which included the Third Party Payment Arrangements. During the Internal Control Review, the Internal Control Consultant did not identify any material deficiency, including those relating to the Third Party Payment Arrangement.

Our Directors further confirm that, to the best of their knowledge, during the Track Record Period and up to the Latest Practicable Date, (i) these payments under the Third Party Payment Arrangements strictly corresponded to *bona fide* commercial transactions governed by valid contractual terms, with pricing and payment conditions consistent with those offered to customers outside such arrangements; and (ii) there were no instances of commercial bribery, money laundering, tax evasion, nor were there any actual or potential disputes involving us in relation to the Third-Party Payment Arrangements.

As advised by our PRC Legal Advisors, based on the above, these Third Party Payment Arrangements by themselves do not contravene or circumvent applicable laws or regulations in the PRC (including anti-money laundering laws) in all material aspects.

OUR CUSTOMERS

During the Track Record Period, our customers were mainly hospitals and medical institutions, medical trading companies, pharmacies, and pharmaceutical companies. Revenue generated from our five largest customers in each year during the Track Record Period amounted to RMB319.3 million, RMB379.8 million and RMB347.5 million, respectively, representing approximately 27.9%, 30.4% and 25.9% of our total revenue for the respective years in 2023, 2024 and 2025. Revenue generated from our largest customer in each year during the Track Record Period amounted to RMB108.5 million, RMB107.9 million and RMB105.9 million, representing approximately 9.5%, 8.6% and 7.9% of our total revenue for the respective years in 2023, 2024 and 2025. Our sales contracts with customer typically have a term of one to three years.

We maintain a good relationship with our customers, with an average length of business relationship of over five years. During the Track Record Period, we maintained a high customer retention rate. In 2023, 2024 and 2025, our customer retention rates were 81.6%, 63.6% and 82.6%, respectively. Additionally, 89.4%, 89.7% and 97.0% of our revenues during the same years were generated from customers who had made more than one purchase with us, respectively.

The following table sets forth details of our five largest customers during the Track Record Period:

Customer	Background	Product Sold	Commencement of Business Relationship	Revenue Contribution	% of Total Revenue
				(RMB in thousand)	
For the year ended December 31, 2023					
Customer A*.	A retail pharmacy chain in China headquartered in Guangdong province, whose shares are listed on the Shanghai Stock Exchange	TCM decoction-ready products	2013	108,524	9.5%
Customer B .	A public healthcare institution specializing in TCM in China	TCM decoction-ready products	2014	60,140	5.2%
Customer C .	A public healthcare institution specializing in TCM in China	TCM decoction-ready products	2012	53,656	4.7%

Customer	Background	Product Sold	Commencement of Business Relationship	Revenue Contribution	% of Total Revenue
				(RMB in thousand)	
Customer D*.	A state-owned pharmaceutical and healthcare group in China headquartered in Beijing with global operations, whose shares are listed on the Stock Exchange	TCM decoction-ready products	2012	52,368	4.6%
Customer E*.	A retail pharmacy chain in China headquartered in Hunan province, whose shares are listed on the Shanghai Stock Exchange	TCM decoction-ready products	2017	44,599	3.9%
Total				**319,287**	**27.9%**
For the year ended December 31, 2024					
Customer A*.	A retail pharmacy chain in China headquartered in Guangdong province, whose shares are listed on the Shanghai Stock Exchange	TCM decoction-ready products	2013	107,880	8.6%
Customer C .	A public healthcare institution specializing in TCM in China	TCM decoction-ready products	2012	81,490	6.5%
Customer D*.	A state-owned pharmaceutical and healthcare group in China headquartered in Beijing with global operations, whose shares are listed on the Stock Exchange	TCM decoction-ready products	2012	80,317	6.4%
Customer B .	A public healthcare institution specializing in TCM in China	TCM decoction-ready products	2014	62,410	5.0%
Customer E*.	A retail pharmacy chain in China headquartered in Hunan province, whose shares are listed on the Shanghai Stock Exchange	TCM decoction-ready products	2017	47,660	3.8%
Total				**379,757**	**30.4%**
For the year ended December 31, 2025					
Customer C .	A public healthcare institution specializing in TCM in China	TCM decoction-ready products	2012	105,923	7.9%

Customer	Background	Product Sold	Commencement of Business Relationship	Revenue Contribution	% of Total Revenue
				(RMB in thousand)	
Customer A .	A retail pharmacy chain in China headquartered in Guangdong province, whose shares are listed on the Shanghai Stock Exchange	TCM decoction-ready products	2013	71,099	5.3%
Customer D .	A state-owned pharmaceutical and healthcare group in China headquartered in Beijing with global operations, whose shares are listed on the Stock Exchange	TCM decoction-ready products	2012	68,534	5.1%
Customer B .	A public healthcare institution specializing in TCM in China	TCM decoction-ready products	2014	64,575	4.8%
Customer F .	A public healthcare institution specializing in TCM in China	TCM decoction-ready products	2006	37,345	2.8%
				347,476	**25.9%**

* Calculated on a consolidated basis

To the best knowledge of our Directors, none of our Directors or their associates or any person who owned 5% or more of our issued share capital as at the Latest Practicable Date had any interest in any of our five largest customers during the Track Record Period, and all our customers during the Track Record Period were Independent Third Parties.

PRODUCTION

Production capabilities are crucial for our success, especially as we increase the scale and type of products we offer. We are committed to developing industry-leading production processes to ensure quality and enhance the safety and efficacy of our products. In particular, we are focused on modern automated and intelligent production processes and management systems to scale our business.

Our Production Management System

We have built a comprehensive information technology system to manage not only the entire production process, but also other business functions such as sales, inventory management, and customer relationships. In 2023, we were awarded the Certification of Information and Industrialization Integration Management System by Shanghai Academy of Quality Management, underscoring our commitment to technological innovation and digital transformation in the TCM industry in China.

We implemented TCM traceability system and have collaborated with one of the leading TCM university in China to establish an electronic labeling system with traceability functions for decoction-ready products from the source. By incorporating technologies such as electronic labeling and digital record-keeping to track the origin, processing, and distribution of raw materials, this system is designed to provide detailed traceability from the source to the final product. We believe that the comprehensive traceability of TCM decoction-ready products could enhance our bargaining power during the tender process. We are able to realize a series of functions such as production management through the following information systems:

- ***Manufacturing enterprise system (MES).*** Our MES integrates critical functions such as sales order management and production planning into a unified platform. By leveraging this system, we are able to monitor, control, and optimize the entire manufacturing process. This end-to-end visibility enhances operational transparency, streamlines workflows, and supports data-driven decision-making. Furthermore, our MES fosters seamless information sharing and collaboration across departments, driving greater production efficiency and organizational agility.

- ***Automated warehousing management system (WMS).*** We have established an automated warehousing management system to ensure the real-time keeping of warehousing records.

Our Production Process

TCM processing involves a series of techniques used to transform raw TCM materials into decoction-ready products. This process is guided by traditional TCM philosophy and tailored to therapeutic needs, inherent properties of the medicinal materials, and specific requirements of formulation and preparation. TCM processing techniques were officially recognized and included in the first batch of National Intangible Cultural Heritage by the State Council in 2006. The processing techniques are crucial in determining the quality of TCM decoction-ready products. Through processing, the active ingredients of the TCM materials are enhanced and transformed, toxicity and side effects are reduced, efficacy is enhanced, and the products become easier to store.

The production process for our TCM products primarily involve the following major production techniques. The process for each product differs, which adds to the complexity of production management for a large product portfolio.

- ***Purification.*** Purification, also known as clean selection processing, involves various methods to meet purity requirements. Depending on the specific raw material, methods such as picking, sieving, winnowing, washing, cutting, scraping, peeling, and stripping may be employed.

- ***Moisturizing and Cutting.*** Techniques involved in moisturizing include spraying, quick washing, soaking, moistening, steaming. Equipment such as rotary soaking tanks and steamers may also be used. Different raw materials require different temperatures, water quantities, and times. Cutting can be done by machines or by hands, depending on the texture and shape of the raw materials. After cutting, the pieces should be promptly dried to ensure quality.

- ***Roasting.*** Besides purification and cutting, roasting is a major preparation method.

    - Frying: This includes plain frying and frying with auxiliary materials. Only dried materials should be used, sorted by size. During the frying method, control over-heating temperature, frying time, and degree is essential.

- Blending and Roasting: Materials are mixed with liquid auxiliaries and fried to a specific degree. Methods include wine roasting, vinegar roasting, salt roasting, honey roasting, ginger roasting, and oil roasting.

- Carbonizing: This process should preserve the material's nature and prevent overheating and re-ignition. Methods include frying to carbonize and calcination to carbonize.

- Calcination: This can be open calcination or calcination and quenching. In open calcination, materials are broken into small pieces, placed in a suitable container, and calcined until crisp or red-hot, then cooled and crushed. In calcination and quenching, materials are heated until red-hot and then quenched in a specified liquid auxiliary, dried, and ground into powder.

- ***Steaming.*** Materials sorted by size are mixed with water or liquid auxiliaries, steamed to the specified degree, slightly cooled, remixed with the steaming liquid, air-dried to about 60% dryness, sliced or segmented, and then fully dried.

- ***Simmering.*** Materials are placed with bran in a frying container and simmered over low heat to the specified degree, then cooled.

- ***Blanching.*** Materials are briefly immersed in boiling water, stirred, and then removed. For some seed medicines, blanching continues until the seed coat smooths out and can be easily removed. The seeds are then placed in cold water and subsequently dried in the sun.

Our Processing Technologies

We believe we are holding an industry-leading position in the processing technology of toxic TCM products. We have dedicated over 15 years to researching the processing technology of toxic TCM decoction-ready products, resulting in deep expertise and know-how in this domain. Building upon this foundation, we are leading the modernization and standardization of traditional TCM processing techniques to promote quality consistency in the industry. These advancements include the application of rotary soaking technology, and cross-flow drying technology to optimize the production process. Moreover, we have developed semi-automatic production equipment tailored to specific process requirements, achieving large-scale production of toxic medicinal pieces. Two of our process development case studies are summarized below:

Our Proprietary Pinellia Ternata Processing Techniques

Traditionally, *Pinellia ternata* (半夏) is processed using static soaking pools with periodic manual stirring. Due to differences in soaking levels at different positions during static soaking, it's difficult to achieve uniform soaking and ensure consistent, stable product quality through manual processing. Additionally, different environmental temperatures affect soaking time and degree, making the process difficult to control.

We independently developed a drum-type immersion tank that uses low-solvent soaking technology and constant temperature soaking technology. This ensures each batch of processed *Pinellia ternata* (製半夏) completes the soaking process under identical conditions, enabling precise control of process parameters. This not only increases production capacity but also helps ensure the product's quality and stability.

Our Proprietary Prepared Rehmannia Processing Techniques

Prepared *Rehmannia* (熟地黃) is a processed product of the *Rehmannia glutinosa* (地黃). The processing can be carried out using either the wine-steaming or the other steaming methods. Due to the lack of specific processing parameters in the statutory methods, the actual processing can often result in either over-processing or under-processing. This variability can lead to difficulties in meeting the quality standards set forth in the Chinese Pharmacopoeia (《中國藥典》) and result in lower yields of finished products.

We have optimized the production conditions and drying parameters for both the wine-steaming method and other steaming methods. These optimized conditions ensure that the product's characteristics meet Chinese Pharmacopoeia standards, with the content of the active ingredient, acteoside, exceeding the pharmacopoeia requirement. This technological advancement provides a solid foundation for our future large-scale production of high-quality prepared *Rehmannia* (熟地黃), ensuring consistent product quality and compliance with quality standards set forth in the Chinese Pharmacopoeia.

Our Production Facility

We operate our TCM manufacturing facility in Chengdu, Sichuan province, which has a total gross floor area of approximately 53,712 square meters as of December 31, 2025. Our Chengdu facility has been GMP certified by the NMPA since July 2003.

Our production equipment includes, among others programmable medicine moistening machines, herbal cutting machines, electromagnetic herb roasting equipment, steaming production lines, microwave vacuum dryer and sterilizer, freeze dryers, and fully automated packaging machines. All of our production facilities strictly comply with the GMP standards of the PRC, as well as our internal standard operating procedures.

Utilization

The following table sets forth the designed capacity, actual production volume, and utilization rate of our production lines in our Chengdu manufacturing facility for the years indicated:

	For the year ended December 31,								
	2024			2025					
	Designed production capacity[1]	Production volume	Utilization rate[2]	Designed production capacity[1]	Production volume	Utilization rate[2]	Designed production capacity[1]	Production volume	Utilization rate[2]
	Tonnes	*Tonnes*	*%*	*Tonnes*	*Tonnes*	*%*	*Tonnes*	*Tonnes*	*%*
Our Manufacturing Facility	8,570	7,020	81.9	10,223	8,576	83.9	11,526	9,521	82.6

(1) The designed production capacity refers to the theoretical maximum units of products that our manufacturing facility can produce in a year.

(2) Utilization rate refers to the percentage of the production volume to designed production capacity during the year.

We maintain and service our manufacturing facility on a regular basis to ensure efficient production without unexpected interruptions. We replace or upgrade production equipment and machinery on a preventive basis or after they have been used for a certain year, depending on the specific type of equipment and machinery, according to our internal policy and production plan. To increase our production capacity to cater to our growing sales demand, we aim to maintain regular investments in new machinery and advanced production facility. Our internal experts conduct periodic reviews of our production capacity and efficiency. We have a policy to review and upgrade our manufacturing capabilities as necessary to capitalize on the anticipated growth of the PRC TCM industries and increase our market share.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant production interruptions due to equipment failure or breakdown, raw material shortages, power interruptions, fire, or labor disputes.

Our Production Expansion Plan

We adopt a phase-by-phase approach in our expansion and upgrade plan, primarily taking into consideration our projected product sales, and continually reevaluating our capital expenditure and the completion time of each phase based on customer demand for our products, the expansion of our sales and distribution network and technological advancements in relation to our production equipment.

We plan to increase our production capacity to meet expected increasing product sales for the next few years primarily through technological upgrades, workshop expansion and manufacturing facility improvements. For example, we aim to expand the production capacity of our Chengdu facility by purchasing advanced production equipment and install additional machineries in different phases of our existing production line. We also plan to expand the area of packaging workshop and enzyme processing workshop to increase our packaging and production capacity respectively.

In addition, we plan to build a new production line for the manufacturing of toxic TCM decoction-ready products in Jiangyou, Sichuan. We are also building a new production line for the manufacturing of non-toxic TCM decoction ready products, and a new warehouse. The construction of these two new workshops and the warehouse is expected to commence by the end of 2025 and put in use in the second half of 2027. We plan to use [**REDACTED**] from the [**REDACTED**] to fund these two new production lines and the warehouse. For details, see "Future Plan and [**REDACTED**]."

QUALITY CONTROL

Our Quality Standards

We believe quality standards are crucial to the continued development of our industry and the success of a TCM company. As such, we have taken the role as a leader in driving efforts for quality standardization and best practices. Moreover, we are relentless in ensuring the high quality of our products as we scale up our business, which is a major bottleneck in the industry.

For each type of TCM product we produce, we strictly adhere to standards set out in the Chinese Pharmacopoeia (《中國藥典》). The Chinese Pharmacopoeia (《中國藥典》) prescribes procedures to evaluate the quality of TCM products, including inspection of water content, total ash percentages, pesticide residue levels, and the amount of certain active or indicative ingredients. We consider these standards to be a basic gatekeeper of quality in our industry. Beyond these guidelines, we have developed a set of internal quality standards based on decades of operational expertise and know-how. Typically, our internal standards are more stringent than those of the Chinese Pharmacopoeia (《中國藥典》). Adhering to these higher standards enables us to produce better quality TCM products, thereby enhancing our reputation among customers and within the industry.

Our internally developed standards have also garnered significant recognition within the industry. We have been invited by government authorities to contribute to the development and promulgation of several national and industry standards. We actively participate in the formulation and revision of national standards and undertake related research projects and initiatives:

- In March 2024, two group standards in which we played a major drafting role, the Guidelines for the Application of New Technologies in Quality Evaluation of TCM Decoctions (中藥飲片質量評價新技術應用指南) and the Technical Specifications for Processing Chinese Medicinal Materials (Fresh-cut) at Origin (中藥材產地加工(趁鮮切制)生產技術規範) were promulgated.

- We were entrusted by the National Institute for Food and Drug Control to participate in the research and revision of quality standards for *Fritillaria walujewii* (瓦布貝母) and processed *Pinellia ternata* (製半夏). The quality standard for *Fritillaria walujewii* (瓦布貝母) was included in the 2010 edition of the Chinese Pharmacopoeia (《中國藥典》), and the standard for *Rhizoma pinelliae preparata* (清半夏) was included in the 2020 edition of the Chinese Pharmacopoeia (《中國藥典》).

- In February 2016, the Chinese Pharmacopoeia Commission issued the National Regulations for TCM Decoction (Draft for Comments) (《國家中藥飲片炮製規範》(徵求意見稿)). As one of the principal research entities, we were responsible for drafting and verifying the processing standards for 31 TCM decoction-ready products, including *Artemisia* leaf (艾葉), stir-fried *Hawthorn* (炒山楂), scorched *hawthorn* (焦山楂), *Dwarf lilyturf* (麥冬), and *Fritillaria cirrhosa* (川貝母), among others.

- To address the issue of adulteration in *Pinellia ternata* (半夏) products, we collaborated with the China Institute for Food and Drug Control, Sichuan Food and Drug Inspection and Testing Institute, and Chengdu University of Traditional Chinese Medicine on the "Supplementary Testing Method for the Detection of Ophiopogonin D in raw *Pinellia Ternata*, *Rhizoma Pinelliae Preparatum* (法半夏), *Ginger Processed Pinelliae* (薑半夏), and *Rhizoma Pinelliae Preparata* (清半夏)." This method was approved by the NMPA in November 2019 and has since become a national standard testing method.

- The modern processing technology development and industrialization demonstration project for Chinese medicinal materials in 2007;

- The standardization of seven types of TCM decoction-ready products, including *Fritillaria cirrhosa* (川貝母) in 2016;

- The research on fermentation technology and standardized application of two types of TCM products, including *Pinellia ternata* massa (半夏曲) in 2015; and

- The research on automation technology and equipment for traditional reproduction methods of multi-material, multi-process TCM products in 2018.

Our Testing Center

Every batch of finished products is tested in our testing center before being delivered to customers. We established a professional testing center in September 2013. Our advanced testing center, equipped with specialized equipment, enables us to conduct comprehensive physical and chemical testing on both raw and finished products. Our testing center operates under a quality management system developed according to standards published by China National Accreditation Service for Conformity Assessment (CNAS). In May 2015, our testing center passed the CNAS assessment, earning national accreditation as a laboratory. According to the International Laboratory Accreditation Cooperation Mutual Recognition Arrangement, our testing reports on TCM products can be internationally recognized in over 70 countries and regions, including the

United States, the European Union, and Japan. Additionally, since 2015, our testing center has successfully undergone at least six GMP certification inspections, consistently meeting regulatory requirements without any major deficiencies.

Our testing center is divided into several specialized departments, including a chemical analysis room, a precision instrument room, a DNA barcoding identification room, a biological laboratory, and a sample retention room. Our testing team comprises 15 experienced personnel, all holding a bachelor's degree and six of them holding a master's degree. The team includes professionals in pharmaceutical chemistry, TCM, organic chemistry, and bioengineering, possessing excellent professional technical skills.

Our testing center is equipped with advanced testing instruments and equipment, such as gas chromatography-mass spectrometers, liquid chromatography-mass spectrometers, gas chromatographs, high-performance liquid chromatographs, and atomic absorption spectrophotometers. Our testing center is currently capable of performing a range of tests on TCM products and raw materials, including content determination, pesticide residue analysis, and heavy metals analysis.

Standardized Quality Control Process

We have adopted standardized quality control processes that combine traditional inspections of physical characteristics and appearances of decoction-ready medicines with modern biochemical and DNA testing. Notably, we have introduced innovations in the processing techniques for toxic decoction-ready medicines.

Quality Control and Assurance Measures

Leveraging our advanced testing center, we have implemented comprehensive quality inspection controls throughout the entire lifecycle of TCM product manufacturing, encompassing raw materials, semi-finished products, and finished products. All production and inspection activities are meticulously documented.

Supplier and Raw Material Quality Control

We believe quality control starts with our suppliers. We aim to procure raw TCM materials of the highest quality commercially available from the most reliable suppliers. By doing so, we believe we are able to control quality at the source and limit the risk of safety issues in later stages of our supply chain. Details of our supplier and raw material quality control measures are set out below:

- *Creating a qualified supplier database.* Our quality control team evaluates suppliers based on their credentials, ability to supply, and the quality of their products. We only buy from suppliers on a specific approved list. Each year, our quality control team reviews the performance of each supplier and records the results in the supplier database.

- *TCM raw materials traceability system.* We have partnered with Chengdu University of Traditional Chinese Medicine to implement an electronic labeling system equipped with traceability functions for decoction-ready products from their source. Our suppliers are mandated to input detailed information, including product types, places of origin, and harvest times, among other relevant data. This system enables us to trace raw material information for each batch of our final products. In the event of a product safety or quality incident, we can hold raw material providers accountable, supported by evidence documented within the system.

- *GAP plantation bases.* In May and June 2023, we entered into collaboration agreements with upstream companies to establish GAP plantation bases in Sichuan. By leveraging these plantation bases, we can exert better control over product quality and implement

the highest standards throughout the cultivation of Chinese herbs. As of the Latest Practicable Date, we had entered into collaboration with three upstream companies and have established, one for *Dwarf lilyturf* (麥冬), one for *Ligusticum chuanxiong* (川芎) and one for *Aconitum carmichaelii* (附片). These arrangements are structured as cooperation agreements and do not constitute joint ventures, partnerships, or any form of equity participation by us. Each of these collaborating partners are our independent third party and we did not make any capital contribution, or pay or incur any fees or payables to theses collaborating partners. Although we are responsible for formulating the quality control standards, we do not directly manage these plantation bases, as they are under control of the collaborating partners. These collaborations essentially allow us to enjoy priority to procure from these plantation base, if these raw materials meet our standards.

Under the terms of these collaboration agreements, the respective responsibilities are clearly delineated. We are primarily responsible for establishing quality control standards, conducting supervision and audit activities, and maintaining priority procurement rights for raw materials that meet our specifications. The collaborating partners retain full ownership and control of their plantation bases and are responsible for the construction, day-to-day management, and operational activities of these facilities, as well as ensuring quality assurance in accordance with the standards prescribed by us. We have not made, and is not required to make, any capital contribution in respect of the establishment or operation of these plantation bases. Furthermore, we do not pay or incur any fees to the upstream companies under these collaboration arrangements, nor are there any fees payable by us. None of them have any past or present relationships (including business, employment, financing, family, trust, or otherwise) with the Company, its subsidiaries, their shareholders, directors, senior management, or any of their respective associates.

Details of these plantation bases are summarized as follows:

- Our *Dwarf Lilyturf* (麥冬) GAP base is located in Luxi Town (蘆溪鎮) and Lingxing Town (靈興鎮), Santai County (三臺縣), Mianyang City (綿陽市). The collaboration partner is Sichuan Daidaiweibeng Agricultural Technology Co., Ltd. (四川代代為本農業科技有限公司), which was established on August 5, 2010 with a registered capital of RMB15.2 million. According to publicly available information, this company is engaged in the industrialized development of Sichuan-origin medicinal materials, including the planting, processing, trading, and sales of Dwarf Lilyturf. Under the collaboration arrangement, the Group is responsible for quality control, supervision, audit, and priority procurement, while the upstream company is responsible for the construction, management, and quality assurance of the plantation base. The Group has not made any capital contribution, pays no fees, and does not directly manage the plantation base. The arrangement is structured as a cooperation agreement and does not involve any joint venture or equity participation.

- Our *Ligusticum Chuanxiong* (川芎) GAP base is located in Shiyang Town (石羊鎮), Dujiangyan City (都江堰市). The collaboration partner is Sichuan Xiuzhitang Pharmaceutical Co., Ltd. (四川修治堂藥業有限公司), which was established on August 24, 2020 with a registered capital of RMB100.0 million. Based on its corporate profile, the company engages in the full industrial chain development of Sichuan-origin medicinal materials, with a particular focus on standardized planting of Ligusticum Chuanxiong and other herbs, cultural tourism, wellness projects, and the processing of traditional Chinese medicinal decoction products. Pursuant to the collaboration arrangement, the Group undertakes quality control, supervision, audit, and priority procurement responsibilities, while the upstream company undertakes the construction, management, and quality assurance of the

plantation base. The Group has not made any capital contribution, pays no fees, and does not directly manage the plantation base. The arrangement is structured as a cooperation agreement and does not involve any joint venture or equity participation.

- Our *Aconitum Carmichaelii* (附片) GAP base is located in Taiping Town (太平鎮), Jiangyou City (江油市), Mianyang City (綿陽市). The collaboration partner is Sichuan Jiangyou Zhitai Attachment Manufacturing Co., Ltd. (四川江油致泰附片製造有限公司), which was established on February 14, 2019 with a registered capital of RMB30.0 million. According to publicly available information, this company operates an integrated industrial chain covering the planting, production, sales, and research of Aconitum Carmichaelii, with a focus on the deep processing of toxic TCM decoction-ready products. Pursuant to the collaboration arrangement, the Group is responsible for quality control, supervision, audit, and priority procurement, while the upstream company is responsible for construction, management, and quality assurance of the plantation base. The Group has not made any capital contribution, pays no fees, and does not directly manage the plantation base. The arrangement is structured as a cooperation agreement and does not involve any joint venture or equity participation.

These upstream companies are our Independent Third Parties and none of them have any past or present relationships (including business, employment, financing, family, trust or otherwise) between the Company, its subsidiaries, their shareholders, directors, senior management, or any of their respective associates and each of these collaborating companies, their shareholders, directors or senior management or any of their respective associates. In 2023, 2024 and 2025, revenue generated from products using raw materials sourced from these plantation bases amounted to RMB26.1 million, RMB15.7 million and RMB7.2 million.

- *Stringent standards for TCM raw materials.* We formulate inspection standards based on Chinese Pharmacopoeia (《中國藥典》) while incorporating relevant industry standards and tailoring to our specific procurement needs for each type of supplies we procure, including physical inspection as well as testing for chemicals and foreign substances. Our quality control team checks samples of raw materials according to our standards before they are stored. After inspection, a report is created and filed. If the raw materials fail during the inspection, they are returned to the supplier.

Quality Control During the Production Process

- *Production instructions.* Based on our production plan, the production department issues detailed instructions for each batch of raw materials, outlining the preparation process and key quality indicators. We have developed a comprehensive set of manufacturing and quality control policies and procedures for TCM decoction-ready products. The quality control team reviews these instructions to ensure compliance before they are implemented.

- *Quality control during processing.* Each step of the processing follows established protocols. Production staff meticulously document the entire process, which is subsequently reviewed by production supervisors. Quality control staff oversee critical points and projects. Once all steps are completed, semi-finished products are stored in the designated inspection area.

- *Quality inspection of semi-finished products.* The quality control team conducts random inspections of each batch of semi-finished products in accordance with Chinese Pharmacopoeia standards. All results are thoroughly documented. Following the inspection, quality control staff complete a review form, and the quality control manager decides whether the products can be released.

- *Quality control in the packaging process.* Upon the release of semi-finished products, the production department issues packaging instructions based on the production plan, detailing the standards, packaging materials, and methods. They organize the packaging process and document the entire procedure. Quality control staff oversee critical points and projects throughout the packaging process.

- *Design and technology.* We believe that investing in TCM decoction-ready product manufacturing allows us to enhance quality control and reduce the risk of human error. For example, we are developing advanced planning and scheduling system, which we believe will allow us to achieve more consistency in handling the processing procedures.

Final Product Quality Control

- *Inspection of final products.* All finished batches are sampled for quality control testing according to finished product specifications after final packaging and become quarantined. Quarantined finished products are stored in designated quarantine area of the warehouse. Our quality control team tests physical characteristics and appearance and conduct several tests on the finished products against the quality standards. Our production team reviews and counterchecks the production batch records, packaging records and other related documents. The authorized person is responsible for the final approval of the release for sale. The approved finished products are affixed with released label.

Engineering Team and Training System

We have maintained a dedicated engineering team responsible for quality control throughout the entire manufacturing process. We categorize our engineers into two ranks based on several factors, including their work experience, performance, and work achievements:

- Engineers: Possess certain engineering technical capabilities and can solve general technical problems in the production process.

- Senior Engineers: Have strong engineering technical and management capabilities, and can solve key technical problems in the production process.

We have also developed an engineer training system to standardize our production and quality control management, which we believe is unique in our industry. This system is crucial to ensuring consistent quality as we scale our business. By implementing a structured training program for our engineering team, we are able to maintain high standards across all aspects of our production processes, from raw material sourcing to final product. This system not only enhances our operational efficiency but also ensures that our products meet stringent quality requirements as we expand.

Our comprehensive training system, coupled with a dedicated engineering team, complements our standardized quality control process. Our engineers have extensive experience in executing testing procedures, which is a critical component of our quality assurance efforts. This experience enables them to identify and address potential issues proactively, ensuring that our products consistently meet or exceed industry standards. The continuous development of our quality control and testing procedures further strengthens our ability to maintain high-quality production as we grow.

Moreover, our system is designed to be resilient and not dependent on any single key individual. This ensures that the necessary knowledge and skills can be effectively transferred through our training programs. By fostering a culture of continuous learning and development, we ensure that our engineering team is well-equipped to uphold our quality standards. This approach mitigates the risks associated with personnel changes and enables us to maintain a consistent level of quality across all operations, thereby reinforcing our commitment to excellence as we scale our business.

PROCUREMENT AND SUPPLIERS

Our raw material procurement is primarily determined by our production schedule. Our production and sales departments meet regularly to determine the planned production and sales volume. Based on this information, the procurement department formulates a procurement and inventory plan and places orders with suppliers for those raw materials whose inventory levels are expected to fall below our target levels.

We manage the inventory levels of our raw materials by monitoring our production activities and incoming sales orders, while also taking into consideration changing customer preferences. This approach ensures that our procurement processes are aligned with actual production needs and market demands, thereby optimizing our inventory management and minimizing the risk of stockouts or excess inventory.

Raw Materials

High quality TCM products start with good raw materials. We use over 700 types of raw TCM materials in the manufacture of our TCM products. For the years ended December 31, 2023, 2024 and 2025, our total procurement costs of TCM raw materials were approximately RMB881.3 million, RMB974.2 million and RMB996.2 million, respectively, representing approximately 76.9%, 78.0% and 74.6% of our total revenue, respectively. We procured substantially all raw materials from China.

The prices and availability of raw TCM materials may vary from year to year based on factors such as customer demand, weather changes, and total harvest. To minimize our exposure to the price fluctuations of raw Chinese herbs and ensure their stable supply, we have adopted the following measures:

- ***Procurement from large-scale suppliers.*** To ensure the general quality of the herbs, we purchase raw TCM materials primarily from large-scale TCM suppliers in the PRC. By securing high-volume procurement contracts, we believe that we could establish substantial negotiating leverage that helps mitigate significant cost fluctuations.

- ***Cooperation with upstream plantation suppliers.*** To secure a stable supply of our major TCM products and navigate through the seasonal fluctuations in raw material prices, we have cooperated with upstream companies in establishing GAP plantation bases in Sichuan. By leveraging these plantation bases, we can ensure the quality of the raw materials of our major TCM products, and attain a better control of our procurement volume and cost.

- ***Strategic inventory***. We build up a strategic inventory of raw TCM materials on a need basis, and particularly if we anticipate price increases based on our industry knowledge. Our inventory enables us to de-risk from price fluctuations and gives us more flexibility in negotiating with customers.

Major Suppliers

We source raw TCM materials for our production from various third-party suppliers in the PRC. As of December 31, 2023, 2024 and 2025, we had a total of 316, 452 and 463 suppliers of raw TCM materials for our production, respectively. We select suppliers based on the quality, production bases, and prices of their raw Chinese herbs, as well as their relevant experience and reputation in the TCM industry.

In selecting our suppliers, our quality control department conducts sample tests on raw materials from suppliers to ensure that their products meet our stringent quality standards. We also require our suppliers to provide us with documents showing that they have obtained the required licenses and permits for their businesses, possess relevant operational experience, and have achieved certain levels of operation scale.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant delays or constraints in production due to any supply disruption of raw materials. To secure a stable supply of raw materials and reduce our risk of supply disruption, we have strategically selected our raw material suppliers and sourced our raw materials from a diversified mix of suppliers in different geographic regions in the PRC. We have established stable business relationships with our raw materials suppliers. During the Track Record Period, we did not have any material disputes with our suppliers.

In each year during the Track Record Period, purchases from our five largest suppliers accounted in aggregate for approximately 36.0%, 23.3% and 20.6% of our total purchases in 2023, 2024 and 2025. In each year during the Track Record Period, our single largest supplier accounted for approximately 11.9%, 7.2% and 6.1% of our total purchases in 2023, 2024 and 2025. We have maintained relationships of between one to eight years with our five largest suppliers. We pay for our purchases of raw materials in cash or on credit, and our suppliers generally give us a credit period of four months.

Below are the tables specifying the breakdown of our top five suppliers for each year during the Track Record Period, with background information including principal business, and length of relationship with us:

Supplier	Background	Product Purchased	Registered Capital	Revenue Scale***	Commencement of Business Relationship	Amount of Purchases	% of Total Purchase
			(RMB in million)	*(RMB in million)*		*(RMB in thousand)*	
For the year ended December 31, 2023							
Customer D*	A state-owned pharmaceutical and healthcare group in China headquartered in Beijing with global operations, whose shares are listed on the Stock Exchange	TCM raw materials, including *Myrrh* (没藥), *Ziziphi spinosae semen* (酸棗仁) and *Cicada slough* (蟬蜕)	3,120.7	> 940	2019	116,965	11.9%
Supplier A**	A private TCM manufacturing and sales company in Guangdong Province	TCM raw materials, including *Scutellaria baicalensis* (黃芩), *Schisandra chinensis fruit* (五味子) and *Buthus martensii* (全蠍)	10.0	≈ 440	2021	72,789	7.4%

Supplier	Background	Product Purchased	Registered Capital	Revenue Scale***	Commencement of Business Relationship	Amount of Purchases	% of Total Purchase
			(RMB in million)	*(RMB in million)*		*(RMB in thousand)*	
Supplier B* . .	A state-owned conglomerate headquartered in Shanghai with business across healthcare, real estate, and consumer goods, whose shares are listed on the Stock Exchange	TCM raw materials, including *Angelica sinensis* (當歸), *Codonopsis* (黨參) and *Pinellia ternata* (半夏)	18,000.0	> 1,380	2022	62,548	6.3%
Supplier C . .	A private pharmaceutical company in Sichuan Province	TCM raw materials, including *Fritillaria cirrhosa* (川貝母), *Rhizoma et radix notopterygii* (羌活) and *Nardostachys jatamansi* (甘松)	30.0	> 70	2019	58,513	5.9%
Supplier D* . .	A private digital healthcare platform in China headquartered in Zhejiang Province	TCM raw materials, including *Dwarf lilyturf* (麥冬), *Fritillaria cirrhosa* (川貝母) and *Hedyotis diffusa* or *Oldenlandia diffusa* (白花蛇舌草)	10.0	> 150	2023	43,948	4.5%
Total						**354,763**	**36.0%**
For the year ended December 31, 2024							
Supplier A** .	A private TCM manufacturing and sales company in Guangdong Province	TCM raw material, including *Rehmannia* (地黃), *Saposhnikovia divaricata* (防風) and *Nelumbo nucifera seeds* (蓮子)	10.0	≈ 440	2021	79,388	7.2%
Customer D* .	A state-owned pharmaceutical and healthcare group in China headquartered in Beijing with global operations, whose shares are listed on the Stock Exchange	TCM raw material, including *Platycladus orientalis seeds* (柏子仁), *Aconite* (草烏) and *Centipede* (蜈蚣)	3,120.7	> 940	2019	60,262	5.5%
Supplier E* . .	A traditional medicine group headquartered in Japan, whose shares are listed on the Tokyo Stock Exchange	TCM raw material, including *Licorice* (甘草), *Polygala* (遠志) and *Nelumbo nucifera seeds* (蓮子)	387.0	> 1,650	2016	53,595	4.9%

Supplier	Background	Product Purchased	Registered Capital	Revenue Scale***	Commencement of Business Relationship	Amount of Purchases	% of Total Purchase
			(RMB in million)	*(RMB in million)*		*(RMB in thousand)*	
Supplier F. . .	A private TCM materials manufacturer and distributor in Anhui Province	TCM raw material, including *Fritillaria cirrhosa* (川貝母)	5.0	> 300	2020	33,762	3.1%
Supplier G . .	A private TCM materials manufacturer and distributor in Sichuan Province	TCM raw material, including *Dwarf lilyturf* (麥冬), *Ziziphi spinosae semen* (酸棗仁) and *Coptis root* (黃連)	20.0	≈ 81	2024	29,236	2.7%
Total						**256,243**	**23.4%**
For the year ended December 31, 2025							
Supplier H . .	A medicine distributor in Hubei Province	TCW raw material	600.0	≈ 10	2025	67,778	6.1%
Supplier A . .	A TCM manufacturing and sales company in Guangdong Province	TCW raw material	10.0	≈ 440	2021	66,369	5.9%
Supplier E. . .	A traditional medicine group headquartered in Japan, whose shares are listed on the Tokyo Stock Exchange	TCW raw material	387.0	> 1,650	2016	36,864	3.3%
Supplier I . . .	A listed pharmaceutical, medical device and healthcare product group company in China	TCW raw material	5,042.5	≈ 1,518	2016	32,734	2.9%
Supplier J . . .	A TCM materials manufacturer and distributor in Shanxi Province	TCW row material	5.9	≈ 71	2024	26,696	2.4%
						230,441	**20.6%**

* Calculated on a consolidated basis

** As of the Latest Practicable Date, Supplier A was a wholly-owned subsidiary within the group of Customer A.

*** Revenue scale in 2024 based on the available information provided by the suppliers

To the best knowledge of our Directors, none of our Directors or their associates or any person who owned 5% or more of our issued share capital as at the Latest Practicable Date had any interest in any of our five largest suppliers during the Track Record Period, and all our suppliers during the Track Record Period were Independent Third Parties.

Overlapping of Customers and Suppliers

Customer D

In 2023, 2024 and 2025, Customer D, a pharmaceutical and healthcare group in China with global operations, was also one of our top five suppliers for each of the respective year. Customer C is a state-owned pharmaceutical company with numerous subsidiaries located in different provinces and regions in China.

We provided Customer D with TCM decoction-ready products, as they are one of the major medical trading companies in China. The major products we sold to Customer D during the Track Record Period include *Pinellia tuber* (法半夏), *Fritillaria cirrhosa* (川貝母), *Ophiopogon root* (麥冬), stir-fried *Ziziphus jujube seed* (炒酸棗仁) and *Ginseng slice* (人參片) during the Track Record Period. In 2023, 2024 and 2025, our revenue generated from Customer D amounted to RMB52.4 million, RMB80.3 million and RMB68.5 million, accounting for 4.6%, 6.4% and 5.1% of our total revenue, respectively. In addition, Customer D also cultivates medicinal herbs as part of their business operations, and we purchased TCM raw materials from Customer D. The major raw materials we procured from Customer D during the Track Record Period include *Ziziphi spinosae semen* (酸棗仁), *Fritillaria cirrhosa* (川貝母), *Cicada slough* (蟬蛻), *Hypericum perforatum* (貫葉金絲桃), *Myrrh* (沒藥) and *Platycladus orientalis seeds* (柏子仁). For details, please see "— Major Suppliers." In 2023, 2024 and 2025, our purchases from Customer D amounted to RMB117.0 million, RMB60.3 million and 20.2, accounting for 11.9%, 5.5% and 1.8% of our total purchases, respectively.

We use the gross method for the accounting treatment with respect to transactions with Customer D and sales and purchases with Customer D are accounted as independent transactions, considering the following factors.

- Although on a consolidated basis, Customer D acted as our overlapping supplier and customer, we are transacting with different subsidiaries of Customer D and the sales and purchase transactions were not interrelated and were not negotiated at the same time.

- For procurement of raw materials from Customer D, we conduct such procurement in accordance with our established procurement policies. All procured raw materials that meet our quality standards are recorded in inventory based on raw material categories rather than by supplier designation.

- In our production process, we draw raw materials directly from the relevant raw material category pools to manufacture the corresponding TCM decoction-ready products. Finished products are subsequently sold based on product categories. Therefore, our internal systems do not establish any direct correlation between purchases from Customer D and sales to Customer D, as these transactions are managed independently through our standard inventory and production processes.

Customer A

Customer A, a retail pharmacy chain in China listed on the Shanghai Stock Exchange, was one of our top five suppliers in each year during the Track Record Period. We sold TCM decoction-ready products to Customer A during the Track Record Period, mainly including stir-fried *Ziziphi Spinosae Semen* (炒酸棗仁), *Pinellia ternata* (半夏) and *Polygonatum odoratum* (玉竹). Our revenue generated from Customer A amounted to approximately RMB108.6 million, RMB108.0 million and RMB71.1 million in 2023, 2024 and 2025, respectively, representing 9.5%, 8.6% and 5.3% of our total revenue for the corresponding periods. Supplier A, was a wholly-owned subsidiary within the group of Customer A. During the Track Record Period, we mainly procured raw materials for the production of *Polygonatum odoratum* (玉竹), *Scutellaria baicalensis* (黃芩), *Saposhnikovia divaricata* (防風), *Buthus martensii* (全蠍), *Schisandra chinensis fruit* (五味子), *Nelumbo nucifera*

seeds (蓮子) and *Rehmannia* (地黃) from Supplier A. Our purchases from Supplier A amounted to approximately RMB72.8 million, RMB79.4 million and RMB66.4 million in 2023, 2024 and 2025, respectively, accounting for 7.4%, 7.2% and 5.8% of our total procurement, respectively.

Customer A is a leading pharmaceutical retail chain enterprise in China, with its retail business accounting for over 85% of its revenue in recent years. Its chain pharmacies span major regions across China, requiring high standards for quality, stability, and timeliness in the delivery of traditional Chinese TCM decoction-ready products. Therefore, we sold our TCM decoction-ready products to Customer A, with an aim to capture a larger market share utilizing their pharmaceutical retail network.

Supplier A is a wholly owned subsidiary of Customer A, which primarily engages in the supply of TCM raw materials originated from Guangdong provinces. Based on public closure of Customer A, Supplier A is not a principal subsidiary of Customer A and its business is not related to the core business of Customer A. We procure raw medicinal materials including lotus seeds, saposhnikovia root, and polygonatum from Supplier A based on our routine procurement requirements and following independent price inquiries. These materials are stored together with similar medicinal materials procured from other suppliers and are subsequently processed into TCM decoction piece products through our standard production processes. There is no direct correlation between the raw materials procured from Supplier A and the TCM decoction piece products sold to Customer A, nor do our sales contracts specify the source of medicinal materials used in our products.

Considering the above, we apply the gross method to account for both procurement and sales transactions with Customer A and Supplier A.

Save as disclosed above, none of our five largest suppliers in each year was also our top five customer in the same year. Our Directors confirmed that all of our sales to Customer D and purchases from Customer D, and all of our sales to Customer A and purchases from Supplier A were conducted in the ordinary course of business under normal commercial terms and on arm's length basis.

RESEARCH AND DEVELOPMENT

Research and Development Investment and R&D Team

In 2023, 2024 and 2025, our total investment in research and development activities was RMB11.5 million, RMB17.1 million and RMB8.0 million, respectively. We have a professional and experienced research and development team. As of December 31, 2025, we had 22 research and development professionals, with specialties covering TCM, pharmaceutics, biology and other fields, equipped with extensive R&D experience. In addition to our specialized R&D team, our manufacturing personnel also participate in our R&D activities. Our R&D team also works closely with the sales team, which provides first-hand feedback from customers that guides follow-on R&D activities.

Collaboration with Third Parties in Research and Development

In addition to our in-house R&D team, we also cooperate with academic and governmental research institutions on several projects. We are actively collaborating with leading research institutes in China to participate in national and provincial-level government-funded research projects, facilitating technological advancements in the production of TCM decoction-ready products. Our collaborations with institutions like the Jiangxi University of Chinese Medicine (江西中醫藥大學) drive initiatives such as the National Key R&D Program for TCM Modernization. We are also collaborating with leading scientists in this field, including researchers at the Shanghai University of Traditional Chinese Medicine and lead professor at the Chengdu University of Traditional Chinese Medicine, enabling us to accumulate extensive experience in the production

and quality control of TCM raw materials and TCM decoction-ready products and thereby promote the high quality development of TCM products. The key terms of our R&D collaboration agreements with academic and governmental research institutions are summarized as below.

- ***R&D initiatives***. We usually collaborated with academic and governmental research institutions in research and development of quality standards, processing methods and production process.

- ***Responsibilities***. We are generally responsible for designing R&D plans, supplying research samples, providing financial support and overseeing the R&D projects. The collaborative partners are generally responsible for executing the R&D activities pursuant to R&D plans and reporting R&D results.

- ***Term***. Based on R&D plan and project timeline, the collaboration agreements usually have a term ranging from one to five years.

- ***Intellectual property***. All intellectual properties arising from the R&D project that are developed independently belong to the party who develops such properties. Intellectual properties jointly developed are co-owned by both parties. Any application or transfer of co-owned intellectual property requires mutual consent of both parties.

Notably, we were highly involved in the R&D of the DNA Barcoding System for Species Identification of Chinese Medicinal Herbs, which received the second prize of the State Scientific and Technological Progress Award (國家科技進步獎) in 2016. We believe that this system could enable the application of DNA barcode biological identification technology to the raw material identification of various decoction-ready products. DNA barcoding is a molecular technique that uses short, standardized genetic sequences to identify species accurately. The DNA Barcoding System for Species Identification of Chinese Medicinal Herbs creates a standardized genetic authentication system for Chinese Medicinal Herbs. For example, certain traditional Chinese medicinal materials, such as Fritillaria cirrhosa (川貝母) and Fritillaria thunbergii (浙貝母), are highly similar in appearance and are difficult to differentiate through conventional visual inspection. In practice, such materials are often misidentified or even deliberately substituted, as Fritillaria cirrhosa (川貝母) generally commands a higher market price. The application of DNA barcoding technology enables accurate species identification at the molecular level, thereby reducing the risk of misidentification. In addition, by ensuring the accuracy of raw material procurement and the rapid identification of decoction-ready products, it helps the users in attain better control of product quality, and avoid potential economic losses caused by raw material defects. We believe that this identification system could also be utilized in GAP cultivation bases, to the accurate identification of seeds and seedlings as species listed in national drug standards. We also participated in the research and development of key technologies for the inheritance and innovation of traditional processing methods, which was awarded the first prize of the Scientific and Technological Progress Award by the Ministry of Education (教育部科學技術進步獎一等獎).

New Product Development

We are developing three TCM wellness products to be validated through production. For example, we are developing several TCM health supplement products, which are scheduled to launch in 2025 and 2026. Leveraging these new product launches, we plan to gradually expand to the TCM retail markets through our recently-established online platforms.

Our TCM Processing Technology Development

We have consistently invested in the research and development of modern TCM processing technologies, establishing ourselves as a leader in the modernization and standardization of traditional TCM processing techniques within the industry. For our highlights and achievements in the TCM processing techniques, see "— Production — Our Processing Technologies."

INVENTORY MANAGEMENT

We implement stringent inventory control measures to ensure the high quality of our products and to reduce the risks associated with the deterioration of raw materials and finished products. Our inventories primarily consist of raw materials, packaging materials, and finished products. All of our warehouses maintain well-ventilated and dry storage conditions with controlled temperature and humidity to avoid the risk of deterioration. We implement a first-in-first-out policy to manage the preservation condition of our raw materials and finished products.

Our raw materials and packaging materials procurement is based on anticipated needs for finished products provided by our sales team on a rolling basis. We set various safety inventory levels for products based on their features and generate alerts when inventory turnover reaches the threshold. We also establish detailed rules and guidelines for storage conditions, including humidity, temperature, light conditions, and maximum turnover time for different types of raw materials, packaging materials, and finished products. We destroy returned or unsalable products upon receipt.

Our inventory turnover is maintained at a reasonable level as a result of such precise management of inventory. Our inventories are generally stored in our warehouse at our Chengdu facility.

LOGISTICS

During the Track Record Period and as of the Latest Practicable Date, the majority of our product transportation was provided by independent third-party logistics service providers. To a lesser extent, we also deliver our TCM products directly to customers in Chengdu. As of the Latest Practicable Date, we engaged four logistics service providers. We typically enter into service agreements with logistics service providers that have competent qualifications, service ability, and competitive pricing. We monitor logistics quality through various measures, including vehicle inspection, routine tracing, return visiting, and retrospective discussion. We assess our logistics service providers based on the frequency of timely delivery, transportation capability, overall service quality, and other dimensions. Pursuant to our current service agreements, we are entitled to terminate the agreements with prior notice if the logistics service providers fail to satisfy our service standards and requirements.

COMPETITION

According to Frost & Sullivan, the TCM decoction-ready product industry in China is fragmented. In terms of sales revenue in 2023, the five largest TCM decoction-ready product manufacturers in China represented 2.7% of total market share. We were the largest toxic TCM decoction-ready product manufacturer in terms of sales revenue of 2023, representing 2.1% of total market share for toxic TCM decoction-ready products. We believe our brand power, sales network management ability and production and quality control ability enable us to compete effectively against our competitors. See "Industry Overview."

We believe that we are well-positioned to excel in the competition within our industry. However, some of our current and potential competitors may have greater resources of capital, technology, brand, sales channel, and marketing than we do, and may be able to sell TCM decoction-ready products that are more popular than us. See "Risk Factors — Risks Relating to Our Business — The traditional Chinese medicine industry is highly fragmented and competitive." We operate in a highly competitive industry. Failure to compete effectively could adversely affect our market share, growth and profitability.

AWARDS AND RECOGNITIONS

During the Track Record Period and up to the Latest Practicable Date, we had received widespread recognition from government authorities and industry associations. The following table sets forth the major awards and certifications we have received.

No.	Year	Award	Awarding authority
1. . .	**2022**	First Prize for Scientific and Technological Progress — Outstanding Scientific Research Achievement Award of Higher Education Institutions — "Research and Application of Key Technologies in Traditional Processing Method Inheritance and Innovation" (No. 2022-395-D06)	Ministry of Education of the People's Republic of China
2. . .	**2022**	Second Prize for Scientific and Technological Progress — Outstanding Scientific Research Achievement Award of Higher Education Institutions — "Quality Control and Industrialization Key Technology Application for Authentic TCM Materials from Sichuan" (No. 2022-561-D06)	Ministry of Education of the People's Republic of China
3. . .	**2022**	Third Prize for Scientific and Technological Progress of Sichuan Province — "Integrated Full Industry Chain Key Technologies and Promotion Application for Five Authentic TCM Materials from Sichuan" (No. 2022-J-3-88-D02)	People's Government of Sichuan Province
4. . .	**2022**	Sichuan Province Industrial Quality Benchmark	Sichuan Enterprise Federation
5. . .	**2022**	2022 TCM Decoction-Ready Product Brand Enterprise	China Association of Traditional Chinese Medicine
6. . .	**2023**	National Leading Enterprise in Agricultural Industrialization	Ministry of Agriculture and Rural Affairs, National Development and Reform Commission, Ministry of Commerce, People's Bank of China, China Securities Regulatory Commission, All China Federation of Supply and Marketing Cooperatives
7. . .	**2023**	Provincial Leading Enterprise in Agricultural Industrialization	Sichuan Provincial Rural Work Leading Group of CPC
8. . .	**2023**	2023 TCM Decoction-Ready Product Brand Enterprise	China Association of Traditional Chinese Medicine
9. . .	**2024**	Chengdu Industrial Excellence Product — *Fritillaria cirrhosa* (川貝母)	Chengdu Bureau of Economy and Information Technology, Chengdu New Economy Development Committee

No.	Year	Award	Awarding authority
10.	**2024**	Chengdu Industrial Excellence Product — *Pinellia ternata* (半夏) (including raw, processed, and ginger-processed)	Chengdu Famous and Quality Products Support Leading Group Office, Chengdu Bureau of Economy and Information Technology, Chengdu New Economy Development Committee
11.	**2024**	2024 TCM Decoction-Ready Product Brand Enterprise	China Association of Traditional Chinese Medicine
12	**2025**	TCM Decoction-Ready Product Brand Enterprise (Ranked First)	China Association of Traditional Chinese Medicine
13	**2025**	TCM Decoction-Ready Product Brand Product (Pinellia ternata (半夏)	China Association of Traditional Chinese Medicine

EMPLOYEES

As of December 31, 2025, substantially all of our employees were based in China. The table below sets forth the number of our employees by function as of December 31, 2025:

Function	Number of employees
Manufacturing	423
Sales and marketing	195
Administrative	101
Research and development	22
Total	**741**

We are committed to establishing a competitive and fair remuneration and benefits system. In order to effectively motivate our employees through remuneration incentives and ensure that our employees receive market-competitive remuneration packages, we continually refine our remuneration and incentive policies.

We provide our employees with a basic pension scheme, basic medical insurance, workplace injury insurance, unemployment insurance, maternity insurance and housing providence funds in accordance with relevant Chinese laws and regulations. We pay great attention to our employees' welfare, and continually improve our welfare system. We provide regular and specialized training tailored to the needs of our employees in different departments. We have maintained a good relationship with our employees. During the Track Record Period and as of the Latest Practicable Date, we did not have any strikes, protests or other material labor disputes that may impair our business and image.

Social Insurance and Housing Provident Funds

Background

During the Track Record Period, we did not make full contribution to social insurance and housing provident funds for our employees in accordance with the relevant PRC laws and regulations ("**Contribution Shortfall**"). We did not make full social insurance and housing provident fund contributions for our employees primarily because the lack of experience of our human resources personnel who did not fully understand the relevant requirements of the relevant PRC laws and regulations. The unpaid amount for social insurance contributions amounted to

approximately RMB6.4 million, RMB5.3 million and RMB5.4 million in 2023, 2024 and 2025, respectively. The unpaid amount for housing provident fund contributions amounted to approximately RMB1.8 million, RMB1.6 million and RMB1.6 million in 2023, 2024 and 2025, respectively.

As advised by our PRC Legal Advisors, pursuant to relevant Law, (i) the under-contribution of social insurance within a prescribed year may be subject to an overdue charge of 0.05% of the delayed payment amount per day and the competent authority may further impose a fine of one to three times of the overdue amount if such payment is not made within the stipulated year; and (ii) in respect of outstanding housing provident fund contributions, we may be ordered to pay the outstanding housing provident fund contributions within a prescribed year. An application may be made to a people's court for compulsory enforcement if the payment of the outstanding housing provident fund contributions is not made after the expiration of the time limit.

As of the Latest Practicable Date, we were not aware of any complaint filed by our employees regarding our social insurance and housing provident fund contribution. Our Directors are of the view that such non-compliance would not have a material and adverse effect on our business and results of operation, considering that, during the Track Record Period and as of the Latest Practicable Date, (i) we had not received any notification from relevant PRC authorities requiring us to pay shortfall or penalties with respect to social insurance and housing provident funds; (ii) we had not been subject to any administrative penalties with respect to social insurance and housing provident funds; (iii) we were not aware of any employee complaints nor were involved in any labor disputes with our employees with respect to social insurance and housing provident funds, and we are able to promptly and properly address the complaints and/or carry out rectifications as required by the relevant PRC regulatory authorities in the event of employee complaints; (iv) no competent government authorities imposed action, fine or penalty to us with respect to this non-compliance incident or required us to settle the outstanding amount of social insurance payments and housing provident fund contributions; and (v) if the relevant authorities order us to fully contribute the social insurance and/or housing provident funds, we would make full contribution and take rectification measures as soon as possible within the specified year. We have consulted the relevant competent regulatory authorities, and such authorities confirmed that they generally would not initiate actions to impose any penalties on us or compel us to make supplementary contributions in the absence of complaints with respect to social insurance and housing provident fund. Pursuant to the Notice of the General Office of the State Council on Issuing the Comprehensive Plan for Reducing Social Insurance Contribution Rates (《國務院辦公廳關於印發降低社會保險費率綜合方案的通知》), effective from 1 May 2019, the human resources and social security, tax, finance and medical insurance authorities are required to properly handle issues relating to enterprises' historical underpayment of social insurance contributions, and, in the process of reforming the contribution collection regime, are not expected to initiate centralized collection of historical outstanding contributions of enterprises. Based on the current regulatory policies, the current enforcement practices and the foregoing as stated above, our PRC Legal Advisors are of the view that, if there is no reports or complaints filed against us, the likelihood that we would be required by relevant competent authorities to initiate centralized collection or make up the shortfall of social insurance and housing provident fund contributions and be subject to material administrative penalties due to our failure to provide full social insurance and housing provident fund contributions is very low. Considering the above, we did not make any provisions with respect to the unpaid amount for social insurance and housing provident contributions.

Internal Control and Remedial Measures

We have taken the following rectification measures to prevent future occurrences of such non-compliances:

- *Training*. Strengthen legal compliance training to our employees responsible for compliance matters, finance and human resources;

- *Policy.* Formulate an internal control policy with respect to social insurance and housing provident fund contribution in compliance with relevant PRC laws and regulations, which we have started to implement;

- *Review and record-keeping.* Designate our human resources staff to review and monitor the payment status on a monthly basis;

- *Increasing awareness of development in law.* Regularly keep abreast of latest developments in PRC laws and regulations in relation to social insurance and housing provident funds; and

- *External consultation.* Consult external PRC legal counsel for advice on relevant PRC laws and regulations.

As of the Latest Practicable Date, we had started to adopt these enhanced measures. In particular, we undertake to make timely payments for the deficient amount and overdue charges, as soon as requested by the competent government authorities.

INTELLECTUAL PROPERTY

Intellectual property rights are fundamental to our business and we devote significant time and resources to their development and protection. We currently hold a collection of intellectual property rights relating to certain aspects of our business operation. Such intellectual property consists primarily of trademarks, patents and copyrights. As of the Latest Practicable Date, we had registered 52 trademarks, 19 patents, three copyrights, six domain names and one software copyrights in China.

We protect our intellectual property rights, including trademarks, patents, copyrights, and domain names, strictly in accordance with relevant laws and regulations. We have established an intellectual property management system, which we regularly improve and update in line with business development. As our brand name is well recognized among consumers in China, we believe that protecting and enforcing our intellectual property rights is crucial to our business operations, branding, and reputation. We seek to maintain the registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. In addition, proprietary know-how that is not patentable and processes for which patents are difficult to enforce are also important to us. We have established a comprehensive confidentiality system for our TCM processing procedures. We rely on business confidentiality agreements to safeguard our interests in this respect. We have entered into confidentiality agreements, or employment agreements with confidentiality terms, with our employees, requiring them to strictly comply with our confidentiality requirements.

As of the Latest Practicable Date, we were not aware of any material infringement (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us. For details, see "Appendix VI — Statutory and General Information."

PROPERTIES

Our headquarters office is located in Chengdu, Sichuan province, the PRC. We own and lease properties in China. As of the Latest Practicable Date, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets. According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempt from the requirements of section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance to include all interests in land or buildings in a valuation report as described under paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

Owned Properties

As of the Latest Practicable Date, we owned land use rights for two parcels of land in China with a total site area of approximately 58,082.1 sq.m. These parcels are primarily used for production, storage, and office purposes. We have obtained the land use right certificates for all the land we own. Additionally, we own eight buildings with a total aggregate gross floor area of approximately 28,366.3 sq.m. in China. We have obtained building ownership certificates for all of our owned buildings.

Leased Properties

As of the Latest Practicable Date, we had seven leased properties with a total aggregate gross floor area of approximately 39,481.19 sq.m. These buildings are primarily used for storage purposes. We have obtained valid title certificates or documents proving legal rights from the landlords for buildings for six of our lease properties. For the remaining one leased property, the landlords have not provided us with the relevant title certificate. The reasons for the landlords' failure to provide these title certificates are beyond our control. To minimize any potential negative impact of these title defects on our operations, we maintain regular and active communications with the landlords regarding the rectification of the title defects.

In addition, as of the Latest Practicable Date, six of our leased properties had not been registered with the relevant local authorities primarily due to the difficulty of procuring the relevant landlords' cooperation to register such leases. As advised by our PRC Legal Advisors, failure to register such lease agreements with the relevant PRC government authorities does not affect the validity and enforceability of the relevant lease agreements. However, the relevant PRC government authorities may order us or the lessors to, within a prescribed time limit, register the lease agreements, and may impose a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease agreement. For the relevant risks, please refer to "Risk Factors — Risks Relating to Our Business — Our leased properties may be subject to non-compliances or challenges that could potentially affect our future use of them."

As of the Latest Practicable Date, we had not been subject to any administrative penalties by the relevant authorities for title defects of our lease properties or failure to register our lease agreements. The potential penalties account for a minimal portion of our total revenue during the Track Record Period.

INSURANCE

In line with general market practice, we do not maintain any business interruption insurance, product liability insurance or environmental liability protection insurance, which are not mandatory under Chinese laws or relevant foreign laws. We do not maintain life insurance for key personnel or insurance policies covering damages to our network infrastructures or information technology systems. We maintain insurance to cover properties and assets, as well as medical expenses for production accidents. We believe that our existing insurance coverage is consistent with industry practice in China and sufficient for our present operations. See "Risk Factors — Risks Relating to Our Business — We have limited insurance coverage, and any claims beyond our insurance coverage may result in our incurring substantial costs and a diversion of resources." As of the Latest Practicable Date, we did not have any material outstanding insurance claims in relation to our business.

SOCIAL RESPONSIBILITY, HEALTH, SAFETY, AND ENVIRONMENTAL MATTERS

We believe our continued growth rests on integrating social values into our business. Since the inception of our operations, we have established various environmental, social and governance initiatives to comprehensively improve our corporate governance and benefit society. To ensure our compliance with applicable environmental protection and health and safety laws and regulations,

we have implemented a robust ESG governance framework overseen by our Board of Directors. We maintain comprehensive policies and procedures that are regularly reviewed and updated to align with evolving regulatory requirements and industry best practices. Our dedicated ESG committee regularly monitors performance metrics, evaluates potential risks, and develops strategic initiatives to minimize our environmental footprint while maximizing positive social impact across our operations and supply chain.

Compliance with Regulations

We are subject to various PRC laws and regulations in respect of health and occupational safety. We are committed to complying with PRC regulatory requirements, preventing and reducing hazards and risks associated with our operation, and ensuring the health and safety of our employees and surrounding communities. We have adopted and maintained a series of rules, standard operating procedures and measures to maintain a healthy and safe environment for our employees, including those required under the GMP certification.

We strive to provide a safe working environment for our employees. We have implemented work safety guidelines setting out safety practices, accident prevention and accident reporting. Our employees responsible for manufacturing and quality control are required to hold relevant qualifications, as well as wear the proper safety gear when working. We conduct regular safety inspections and maintenance for our manufacturing facility. As of the Latest Practicable Date, we had not experienced any material accidents in the course of our operation and our Directors were not aware of any claims for personal or property damages in connection with health and occupational safety.

Our business is subject to national, provincial and local environmental laws and regulations in China. The relevant laws and regulations applicable to us in China include provisions governing air emissions, water discharge, the prevention and treatment of sewage and exhaust fumes and the management and disposal of hazardous substances and waste. We have established a pollution control system in order to comply with the applicable laws and regulations. We believe we have maintained a good relationship with the communities surrounding our production facility. During the Track Record Period and up to the Latest Practicable Date, we did not have any non-compliance incidents with regards to applicable environmental laws and regulations which may have any material operational or financial impact on us. In 2023, 2024 and 2025, our costs for compliance with the applicable environmental rules and regulations as a percentage of total revenue for the respective years was less than 1.0%. We do not expect there to be substantial changes to our costs for compliance with the applicable environmental rules and regulations in the near future.

Environmental Protection

Energy Consumption

During the Track Record Period, we actively monitored our resource consumption for our manufacturing function. The main types of energy we consume on a daily basis include water, electricity and natural gas. The quantity of our energy and resource consumption for the years indicated is set forth in the table below. In 2023, the consumption level of electricity significantly increased, primarily because in order to further enhance our product manufacturing and storage environments, ensure the suitability of the working conditions for workshop workers, and maintain the quality stability throughout the entire production process, we installed additional air-conditioning facilities and multiple bag-type dust collectors across several workshops. These newly added facilities have relatively high energy consumption per unit and operate for extended years. Coupled with the addition of some new production equipment in 2023, this led to a significant increase in electricity usage in 2023 compared to 2022. Since 2023, these facilities have been operating steadily, resulting in relatively stable electricity consumption levels in 2023, 2024 and 2025.

	For the year ended December 31,		
	2023	2024	2025
Water (cubic meters)	72,979	79,006	85,087
Electricity (kWh)	2,008,786	2,523,627	3,125,195
Natural gas (cubic meters)	574,596	539,608	600,802

In the TCM decoction-ready industry, energy consumption does not necessarily correlate with production capacity, which, as confirmed by Frost & Sullivan, is an established industry norm. During the reporting year, fluctuations in water, electricity, and gas consumption relative to output were primarily attributable to variations in energy requirements between simple and complex processed products, as well as changes in the energy consumption of public auxiliary facilities.

There are significant differences between simple and complex processed products in terms of process complexity and energy consumption, including water, electricity, and natural gas. The processing procedures for each product vary. A relatively complete procedure may include cleaning, infiltration and cutting, processing (such as frying, moxibustion, calcining, steaming, boiling, stewing, and braising), drying, and screening; however, not all products require every step.

Specifically: (1) Simple processing products, such as *Dwarf Lilyturf* (麦冬), *Semen Nelumbinis* (莲子), and *Aconitum carmichaelii* (附片), require only basic purification of the raw medicinal materials. These products involve limited production equipment and consume relatively little water, electricity, and natural gas. Accordingly, changes in their output do not directly correspond to changes in energy consumption. (2) Complex processing products, such as *Rhizoma Pinelliae Preparatum* (法半夏) and *Ginger Processed pinelliae* (姜半夏), require more extensive use of production equipment, and their output is directly related to the consumption of water, electricity, and natural gas. Moreover, because each product involves different processing components and key steps, the extent to which water, electricity, and natural gas are consumed also varies by product.

The total output and the output of complex processed products from 2023 to 2025 are as follows:

Unit: ton

	2023		2024		2025	
Category	Amount	Rate of change	Amount	Rate of change	Amount	Rate of change
Total output	7,020	19.25%	8,576	22.17%	9,521	11.02%
Output of complex processed products	4,821	19.06%	6,137	27.31%	6,706	9.27%

The energy consumption of the workshop's public auxiliary facilities is relatively high but has little correlation with changes in production volume. At certain times, we purchased and put into use a large number of public auxiliary facilities, resulting in years when energy consumption was disproportionately high relative to production output. In 2023, in order to further improve the production and storage environment and to ensure the stability of product quality throughout the production process, we added auxiliary facilities such as air conditioning and dust removal systems, as well as a new atmosphere-controlled cold storage. These facilities require prolonged operation and therefore consume substantial amounts of electricity. Together with the impact of other newly purchased equipment, including packaging machines and electromagnetic stir-frying machines, electricity consumption in 2025 increased significantly by 23.8% compared with 2024.

In 2024, the growth rate of electricity consumption was generally consistent with that of the output of complex processed products. In 2024, the water consumption increased by 8.26% compared with 2023, much lower than the growth rate of output of complex processed products, mainly due to higher purity requirements for procured raw materials that reduced water use during processing. The growth rate of gas consumption declined, which was primarily due to the replacement of the original gas-fired medicine frying machines with electromagnetic frying machines at the end of 2023, which resulted in higher electricity consumption and lower gas consumption in 2024.

We intend to continually reduce the level of our energy consumption. We will adopt energy-efficient production and auxiliary equipment and facilities, including upgrading our manufacturing systems with advanced energy-saving technologies and installing smart monitoring devices for better energy management. We will also focus on improving production efficiency to reduce energy consumption during the production process through process optimization, enhanced automation, and implementing standardized operating procedures that minimize energy waste.

Greenhouse Gas Emission and Waste Discharge

We use quantitative metrics to evaluate, assess and manage our pollutants emission and resource consumption. During the Track Record Period, we engaged third-party professional environmental testing agencies to evaluate our pollutants emissions, including recycled water and waste gas, and underground water of our plant and ambient noise around our plant.

During the Track Record Period, our pollutants emissions in environmental testing generally met relevant national and industry environmental standards. Our greenhouse gas emissions consist of Scope 1 and Scope 2 emissions. Scope 1 direct emissions include the greenhouse gas emissions from our manufacturing facility and other stationary combustion sources. Scope 2 energy indirect emissions primarily include the greenhouse gas emissions from our usage of purchased electricity and steam. In response to the national target of carbon neutrality, we actively focus on reducing the greenhouse gas emissions generated during our operations. Scope 1 emissions were approximately 1,321 tonnes, 1,235 tonnes and 1,426 tonnes for the years ended December 31, 2023, 2024 and 2025, respectively. Scope 2 emissions were approximately 1,078 tonnes, 1,354 tonnes and 1,677 tonnes, respectively. Scope 3 emissions were approximately 75,474 tonnes, 81,169 tonnes and 79,480 tonnes, respectively. The overall increase in Scope 2 and Scope 3 emissions during the Track Record Period was primarily attributable to the expansion of our production capacity and business operations.

Greenhouse Gas Emissions[1]	Unit	2023	2024	2025
Scope 1	tonnes of CO_2 equivalent	1,321	1,235	1.426
Scope 2	tonnes of CO_2 equivalent	1,078	1,354	1,677
Scope 3[2]	tonnes of CO_2 equivalent	75,474	81,169	79,480
Total Scope 1 and Scope 2	tonnes of CO_2 equivalent	2,399	2,589	3,103
Scope 1 and Scope 2 emissions intensity	tonnes of CO_2 equivalent per RMB1,000 revenue	0.0021	0.0021	0.0023

1 The calculation of greenhouse gas emissions is based on the Greenhouse Gas Protocol published by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), as well as the methodologies and emission factors published by the Intergovernmental Panel on Climate Change (IPCC), including the 2006 IPCC Guidelines for National Greenhouse Gas Inventories. It also makes reference to the Guidelines for Accounting Methods and Reporting of Greenhouse Gas Emissions from Other Industrial Enterprises (Trial Version) issued by the National Development and Reform Commission of the PRC.

2 Scope 3 emissions mainly include purchased goods and services, as well as emissions related to fuel- and energy-related activities.

Our target is to achieve a 3% reduction in Scope 1 and Scope 2 greenhouse gas emissions intensity by 2026, using 2023 as the baseline year. We have implemented comprehensive measures to reduce greenhouse gas emissions through strategic technological upgrades. Meanwhile, we have applied reflective and thermal-insulating roof coatings to reduce air-conditioning energy consumption, thereby contributing to the reduction of greenhouse gas emissions. Key initiatives include the adoption of low-nitrogen combustion boilers that can significantly minimize emissions. Additionally, we employ a multi-faceted approach to process emissions control, utilizing activated carbon adsorption systems, bag dust collectors, and water spray scrubbing technology to effectively capture and reduce harmful airborne pollutants. These technological solutions align with our overall sustainable strategy, which focuses on modernizing facilities and technologies to achieve substantial emissions reductions while maintaining production targets.

We also endeavor to reduce waste water discharge through comprehensive technological and operational enhancements. Production processes and equipment have been constantly optimized to achieve raw material washing, moistening, and equipment cleaning using significantly less water, thereby reducing overall waste water generation at the source. This technical optimization is complemented by company-wide waste water reduction initiatives, which actively promote water conservation practices among employees and minimize the use of cleaning agents to reduce water contamination.

For solid waste, we are extending oversight to the raw material sourcing stage, where we require suppliers to provide cleaner, higher-quality raw materials, significantly reducing the volume of herbal residue generated during our screening and selection processes. This approach is particularly sustainable as any herbal waste produced at the source serves as natural fertilizer. For packaging materials, we use reusable plastic transit containers throughout the production process, minimizing the use of cardboard boxes and plastic woven bags. When such conventional packaging is necessary, our employees follow optimized opening techniques that preserve packaging integrity, enabling multiple reuse cycles and substantially reducing packaging waste. These production-focused initiatives are complemented by administrative measures such as paperless office operations to minimize paper waste generation from non-manufacturing activities, creating a holistic approach to solid waste reduction across our business operations.

Wildlife Protection

Our product are processed from medicinal herbs, animal substances and minerals. As confirmed by our Directors, amongst all the raw material we purchased, during the Track Record Period, we collected certain wild Fritillaria cirrhosa by ourselves with the required permits, all the other raw materials we purchased were derived from products of artificially bred animals and artificially cultivated wild plants, and we have never purchased or used wild endangered animals and plants. During the Track Record Period, we have purchased all such plants and animal substances from certified suppliers. We have also obtained all the permits necessary for the purchase of product of wild animals and plants under the state priority protection during the Track Record Period. As advised by our PRC Legal Advisors, during the Track Record Period we have not been subject to any administrative penalties due to any violation of the applicable PRC laws and regulations regarding the purchase and use of products of wild animals and plants based on the credit report issued by the competent authorities.

We are committed to sustainable development by carefully balancing wildlife conservation with our business operations. We have established stringent internal measures to regulate the purchase and use of wild animals and plants, including mandatory pre-approval process requiring formal application for any purchase and use of protected species. We also maintain comprehensive documentation for all protected species and conduct staff training on biodiversity conservation and regulatory requirements from time to time.

Social Responsibility

Workplace Safety

To ensure our compliance with applicable environmental protection and health and safety laws and regulations, we have implemented comprehensive workplace safety protocols throughout our manufacturing facilities. We provide employees with safety training covering proper handling of raw materials, safe operation of equipment, and emergency response procedures. We conduct regular safety drills and maintain detailed incident reporting mechanisms to continuously improve our workplace safety culture. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material and adverse workplace health and safety incidents.

Gender Diversity

We are committed to providing equal opportunities and aim to eliminate discrimination, harassment, and victimization in employment based on factors such as age or gender. Our gender diversity objectives ensure that men and women are hired at a balanced rate and are equally valued for their contributions to our success. Both genders are given the same opportunities in our workplaces.

We recognize and embrace the benefits of having a diverse Board, viewing increased diversity, including gender diversity, as crucial for maintaining our competitive edge and enhancing our ability to attract, retain, and motivate employees from the broadest talent pool. We are dedicated to ensuring gender diversity when hiring mid-level and senior-level employees, enabling female senior management and potential successors to join the Board of Directors in a timely manner, thus ensuring the Board's gender diversity.

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, which could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

COMPLIANCE, LICENSES, AND PERMITS

Licenses, Approvals and Permits

According to our PRC Legal Advisors, as of the Latest Practicable Date, we had obtained all material licenses, permits, approvals and certificates that are material for our business operations in China and such licenses, permits, approvals and certificates remained in full effect.

The following table sets forth key licenses, permits and certificates relating to our business and operations (apart from those pertaining to general business requirements), their respective license number, issuing authority and expiry date.

Name	License Number	Issuing Authority	Expiry Date
Pharmaceutical Manufacturing License	Chuan 20160209	Sichuan Provincial Medical Products Administration	June 23, 2030
Pharmaceutical Distribution License	Chuan AA028a00061	Sichuan Provincial Medical Products Administration	March 14, 2029
Pharmaceutical Distribution License	Chuan DA02802137(18)	Chengdu High-Tech Industrial Development Zone Market Supervision and Administration Bureau	July 6, 2026

Name	License Number	Issuing Authority	Expiry Date
Food Business License	JY35101090350542(1-1)	Chengdu High-Tech Industrial Development Zone Market Supervision and Administration Bureau	February 27, 2027
Aquatic Wildlife Business Utilization Non-license Filing	202551000005	Sichuan Provincial Department of Agriculture and Rural Affairs	May 6, 2030
Customs Registration Certificate for Importers and Exporters	5101362008	General Administration of Customs of China	N/A
Food Manufacturing License	SC11451010900391	Chengdu Municipal Administration for Market Regulation	December 21, 2030

Compliance

During the Track Record Period and up to the Latest Practicable Date, save as disclosed above, we had not been and were not involved in any non-compliance incidents that could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. We believe that and as advised by our PRC Legal Advisors, except for the shortfalls in social insurance and housing provident fund contributions as disclosed in the section headed "Business — Employees," we did not have any material non-compliance with all relevant laws and regulations in China during the Track Record Period and up to the Latest Practicable Date.

RISK MANAGEMENT AND INTERNAL CONTROL

We are committed to establishing and maintaining robust risk management and internal control systems, consisting of policies, procedures, and methods that are suitable for our business operations. We are dedicated to continuously improving these systems, fostering a risk management culture, and increasing risk awareness among all employees. To identify, assess, and control risks that could hinder our success, we have implemented a comprehensive risk management system that covers all critical aspects of our operations, including financial security, production, technology, and compliance. Recognizing that risk management is a systematic endeavor, each of our departments is responsible for identifying and evaluating risks related to their specific areas of operation. Our audit committee oversees and assesses our risk management policy and supervises the performance of our risk management system.

We maintain robust internal controls to prevent bribery and corruption throughout our operations. We require our sales personnel to sign anti-corruption and anti-bribery agreements and undergo compliance training from time to time. Our comprehensive anti-corruption and anti-bribery framework includes clear expense approval procedures, thorough due diligence for third-party relationships, and regular audits of high-risk transactions. We have also established internal report and whistleblower policy with multiple reporting channels to encourage employees to report suspected violations. Our zero-tolerance approach to corruption is reinforced through transparent disciplinary procedures and regular compliance communications from senior management.