

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our consolidated financial information, including the notes thereto, included in the Accountants’ Report set out in Appendix I to this document. Our consolidated financial information has been prepared in accordance with IFRS Accounting Standards.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors. We discuss factors that we believe could cause or contribute to these differences below and elsewhere in this document, including those set forth in “Risk Factors” and “Forward-Looking Statements” in this document.

OVERVIEW

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.

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. In addition, we are unlocking 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.

During the Track Record Period, our revenue increased from RMB1,145.6 million in 2023 to RMB1,334.7 million in 2025, and our gross profit increased from RMB212.0 million to RMB253.2 million in the same years.

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with IFRS Accounting Standards, which comprise all applicable standards and interpretations approved by the International Accounting Standards Board. All IFRS Accounting Standards effective for the accounting period commencing from January 1, 2025, together with the relevant transitional provisions, have been early adopted by us in the preparation of our historical financial information throughout the Track Record Period. Our historical financial information has been prepared under the historical cost convention, except for certain financial instruments, which have been measured at fair value at the end of each financial year during the Track Record Period.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business and results of operations are affected by the general factors that impact our total addressable market, including, among others, the growth of the TCM market and its competitive landscape, our ability to expand our business reach and customer network, our ability to control our profitability and costs and expenses, as well as regulatory developments.

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Growth of the TCM product market and demand for our products

Our financial performance and future business growth depend on the growth of the overall TCM market and in turn, demand for our products. In China, 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. See “Industry Overview” for details of the market and its competitive landscape. As one of the largest providers of TCM decoction-ready products in China, we believe that our business model covering core TCM markets and responsive solutions to reach modern consumers in underserved segments, as well as our foundational capabilities in industry standardization, manufacturing and quality control, will enable us to scale and capture growth opportunities in the TCM market in China and abroad.

Our ability to deepen and expand our network of institutional customers

During the Track Record Period, over 50% of our revenue was generated through stable business relationships with institutional customers, including TCM hospitals and pharmacies. Our ability to maintain relationships with these institutional customers, as well as our ability to expand our network within these customer bases will be crucial to our continued business and financial growth.

Our extensive TCM hospital network has served as the cornerstone of our historical success with a revenue contribution of 37.0% and 38.4% in 2024 and 2025 and a revenue CAGR of 9.9% during the Track Record Period. TCM hospitals represent the largest segment in terms of revenue in China’s TCM decoction-ready product market in 2024. We work with over 1,000 hospitals and medical institutions across over 30 provinces in China, including some of the largest and most well-known. Our ability to offer larger volumes of major product types, such as *Fritillaria cirrhosa* (川貝母) and processed *Pinellia ternata* (製半夏), to TCM hospitals will allow us to strengthen our leadership position, particularly under the incoming nationwide centralized procurement scheme.

Pharmacies are another major customer segment from which we derived 16.9% and 13.4% of our revenue in 2024 and 2025. We maintain strategic cooperation with major national pharmacy chains in China. Our continued partnership with these pharmacy chains enables accessibility to our products on a wide scale and penetration of multiple-tiered cities. Moreover, their continued expansion will create significant opportunities for our further business growth.

Our ability to meet the needs of small businesses and retail consumers through new products and solutions

We are tapping into underserved market segments by offering modernized products and solutions to meet the needs of today’s small businesses and retail consumers. We have launched numerous business initiatives, such as digital platforms like Jinfang Caotang (金方草堂) and Jinfang Cloud (金方雲) to serve the procurement and order fulfillment needs of small clinics and practitioners in China. As of the Latest Practicable Date, we had accumulated over 5,800 users on our Jinfang Caotang platform, growing significantly from approximately 220 users in March 2024. With over 97,000 small TCM clinics in China, we believe that the demand for our new products and solutions are vast and untapped. Our ability to successfully grow these new businesses potentially has a significant impact on our future results of operations. Moreover, considering the differentiated product mix offered to small businesses and retail consumers, we expect that the growth of these businesses will also impact our profitability going forward.

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Our ability to effectively control costs and expenses and improve operational efficiency

Raw material costs are a significant component in our cost structure. As such, fluctuations in raw material costs and our ability to control or negotiate favorable prices with suppliers are major factors in our profit margins. During the Track Record Period, our raw material costs as a percentage of revenue increased from 76.9% in 2023 to 78.0% in 2024, and further decreased to 74.6% in 2025. We have taken, and will endeavor to take, various measures to manage such costs. For instance, as we grow in scale and expand our market share in major product types, we will aim to negotiate volume purchases prices as well as strategically time our procurement based on cost fluctuations.

In addition to raw material costs, our ability to manage operational efficiency and control our selling and distribution expenses, administrative expenses and research and development expenses also contribute to our profitability. During the Track Record Period, these expenses, in aggregate, accounting for 8.5%, 8.9% and 10.3% of our total revenue in 2023, 2024 and 2025, respectively. Going forward, we will continue to adjust and streamline operations to bring greater economies of scale as our business grows.

Our ability to navigate the evolving regulatory environment

The industry in which we operate is subject to evolving legal and regulatory requirements, including those relating to TCM decoction-ready product quality, production and sales, government spending on healthcare, reimbursement schemes, among others. These regulations will continue to evolve and new regulations may be introduced that affect our market landscape and operations. For example, 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 hospitals on a national scale. For details, see “Regulatory Overview — Regulations on Centralized Procurement.” As these regulations evolve, we expect that they will continue to impact our operations and financial performance.

MATERIAL ACCOUNTING POLICY INFORMATION AND CRITICAL JUDGMENTS AND ESTIMATES

The preparation of our historical financial information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. See notes 2.3 and 3 to the Accountants’ Report set out in Appendix I to this document for a detailed description of our material accounting policy information, judgments and estimates which we believe are most important for understanding our results of operations and financial condition.

Material Accounting Policy Information

We set forth below accounting policies that we believe involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our material accounting policy information, as well as our key source of estimation uncertainties, which are important for understanding our financial condition and results of operations, are set forth in Notes 2.3 and 3 to the Accountants’ Report in Appendix I to this document.

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DESCRIPTION OF SELECTED COMPONENTS OF THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the years indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future year.

	For the year ended December 31,					
	2023		2024		2025	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Revenue	1,145,571	100.0	1,249,402	100.0	1,334,707	100.0
Cost of sales	(933,553)	(81.5)	(1,036,329)	(82.9)	(1,081,546)	(81.0)
Gross profit	212,018	18.5	213,073	17.1	253,161	19.0
Other income and gains	4,692	0.4	7,506	0.6	8,664	0.6
Selling and distribution expenses	(52,389)	(4.6)	(50,464)	(4.0)	(66,992)	(5.0)
Administrative expenses	(34,036)	(3.0)	(46,318)	(3.7)	(61,923)	(4.6)
Research and development expenses	(11,501)	(1.0)	(17,125)	(1.4)	(7,997)	(0.6)
Impairment losses	(7,091)	(0.6)	(8,721)	(0.7)	(7,212)	(0.5)
Other expenses	(176)	(0.0)	(1,849)	(0.1)	(2,069)	(0.2)
Finance costs	(5,931)	(0.5)	(5,786)	(0.5)	(8,138)	(0.6)
Share of profit and loss of a joint venture	(46)	(0.0)	–	–	–	–
Loss on disposal of a joint venture	(904)	(0.1)	–	–	–	–
Profit before tax	104,636	9.1	90,316	7.2	107,494	8.1
Income tax expense	(662)	(0.1)	(1,204)	(0.1)	(1,053)	(0.1)
Profit for the year	103,974	9.1	89,112	7.1	106,441	8.0
Other comprehensive loss						
Other comprehensive income that may be reclassified to profit or loss in subsequent years:						
Exchange differences	(13)	(0.0)	(21)	(0.0)	118	0.0
Total comprehensive income for the year	103,961	9.1	89,091	7.1	106,559	8.0
Attributable to:						
Owners of the parent	103,922	9.1	89,101	7.1	106,573	8.0
Non-controlling interest	39	0.0	(10)	(0.0)	(14)	0.0

Revenue

During the Track Record Period, we primarily generated revenue from sales of decoction-ready products. For the years ended December 31, 2023, 2024 and 2025, our revenue amounted to RMB1,145.6 million, RMB1,249.4 million and RMB1,334.7 million, respectively. During the Track Record, we have experienced strong revenue growth during the Track Record Period, which was significantly boosted by our sales growth with our major customers, all of which being major TCM hospitals and chained pharmacies in China. Revenue generated from our ten largest customers increased from RMB463.3 million in 2023 to RMB506.4 million in 2024, and remained relatively stable at RMB489.9 million in 2025. Such sales growth was primarily attributable to (i) our quality control standards and (ii) our capability to offer a wide range of TCM decoction-ready products. Currently, most market players in China’s TCM decoction-ready product market only operate on a relatively small scale and limited production capacity. As such, according to Frost & Sullivan, major TCM hospitals and TCM medical trading companies tend to procure TCM decoction-ready products from suppliers with high quality standards and diversified product portfolio to streamline their procurement process.

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Revenue by Types of Goods

The following table sets forth a breakdown of our revenue by type of goods both in absolute amount and as a percentage of our total revenue 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

The following table sets forth a breakdown of the revenue our top five best-selling products that generated the highest revenue for the year ended December 31, 2025, for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%
<i>Fritillaria Cirrhosa</i> (川貝母)	109,658	9.6	107,210	8.6	87,204	6.5
<i>Dwarf Lilyturf</i> (麥冬)	41,392	3.6	65,961	5.3	39,789	3.0
<i>Rhizoma Pinelliae Preparatum</i> (法半夏)	57,666	5.0	60,328	4.8	48,833	3.7
<i>Stir-fried Ziziphi Spinosa</i> <i>Semen</i> (炒酸棗仁)	95,802	8.4	53,637	4.3	38,738	2.9
<i>Coptis root</i> (黃連)	28,701	2.5	29,700	2.4	31,624	2.4

Our revenue from *Fritillaria Cirrhosa* (川貝母) decreased by 2.2% from RMB109.7 million in 2023 to RMB107.2 million in 2024, mainly due to the slight cut in selling price while our sales volumes remained stable. *Dwarf Lilyturf* (麥冬) increase by 59.4% from RMB41.4 million in 2023 to RMB66.0 million in 2024. The growth in revenue is attributed to (i) the increase in selling price which aligned with the growth of raw material cost in 2023, and (ii) significant sales volume growth contributed by new clients in 2024. The revenue generated from *Stir-fried Ziziphi Spinosa Semen* (炒酸棗仁) declined by 44.0% from RMB95.8 million in 2023 to RMB53.6 million in 2024, primarily because we lowered the selling price in line with the falling of raw material cost, along with a slight decrease in sales volume.

For the years ended December 31, 2023, 2024 and 2025, our revenue generated from sales of over 770 types and 4,900 varieties of decoction-ready products, with *Rhizoma pinelliae preparatum* (法半夏) and *Ginger processed pinelliae* (薑半夏) from our toxic decoction-ready products and *Fritillaria cirrhosa* (川貝母), *Dwarf lilyturf* (麥冬), stir-fried *Ziziphi spinosa semen* (炒酸棗仁) and *Coptis root* (黃連) from our non-toxic decoction-ready products contributing significantly to our revenue during the Track Record Period.

From 2023 to 2024, sales volume of *Fritillaria cirrhosa* (川貝母), and *Rhizoma pinelliae preparatum* (法半夏) remained relatively stable, while sales volumes of other products, such as *Dwarf lilyturf* (麥冬) and new product types increased and drove our overall revenue growth. From 2024 to 2025, the increased revenue from non-toxic decoction-ready products was mainly driven by the increased sales volume of major products such as *Coptis root* (黃連), while the decreased revenue from toxic decoction-ready products was mainly due to the decreased sales volume of major products such as *Rhizoma pinelliae preparatum* (法半夏). Average selling prices of products fluctuated generally in line with movements in raw material costs.

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Revenue by Geographical Market

The following table sets forth a breakdown of our revenue by geographical regions both in absolute amount and as a percentage of our total revenue for the years indicated:

	For the year ended December 31,					
	2023		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%
Chinese Mainland	1,100,174	96.0	1,193,156	95.5	1,289,338	96.6
Other Countries/Regions ⁽¹⁾	45,397	4.0	56,246	4.5	45,369	3.4
Total	1,145,571	100.0	1,249,402	100.0	1,334,707	100.0

Note:

(1) Other countries/regions include Hong Kong, Taiwan and Malaysia.

Revenue by Customer Types

The following table sets forth a breakdown of our revenue by customer types both in absolute amount and as a percentage of our total revenue 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
– Public hospitals	329,615	28.8	396,948	31.7	441,470	33.1
– Private hospitals and clinics	42,289	3.7	64,927	5.3	71,271	5.3
Medical trading companies	385,253	33.6	443,828	35.5	471,769	35.3
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	12.9
Total	1,145,571	100.0	1,249,402	100.0	1,334,707	100.0

Revenue from hospitals and medical institutions, particularly public hospitals, increased steadily during the Track Record Period, primarily due to our expanding hospital network, increased adoption of standardized TCM decoction-ready products, and stable orders under the existing hospital procurement pricing mechanisms.

Revenue from pharmacies decreased from 2023 to 2025, and revenue from pharmaceutical companies decreased from 2023 to 2024, primarily due to the pricing trends of *Dwarf lilyturf* (麥冬) and stir-fried *Ziziphus jujuba seeds* (炒酸棗仁) sold through these channels, which mirrored raw material price fluctuations. After reaching a peak in 2023, prices remained elevated in the first half of 2024 but gradually began to decline in the second half. This decrease contributed to lower average selling prices and a reduction in overall channel revenue. Revenue from pharmaceutical companies increased from 2024 to 2025, primarily due to as we continue to deepen our business relationship with major customers.

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Cost of Sales

During the Track Record Period, our cost of sales consisted of raw materials costs, as well as labor costs, depreciation, freight costs and other expenses. For the years ended December 31, 2023, 2024 and 2025, our cost of sales amounted to RMB933.6 million, RMB1,036.3 million and RMB1,081.5 million, respectively. The following table sets forth a breakdown of our cost of sales for the years indicated:

	For the year ended December 31,					
	2023		2024		2025	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Raw materials	881,308	94.3	974,150	94.0	996,169	92.1
Labor costs	17,435	1.9	20,838	2.0	25,057	2.3
Depreciation	6,240	0.7	8,704	0.8	11,974	1.1
Freight costs	12,078	1.3	17,510	1.7	20,330	1.9
Other expenses	16,492	1.8	15,127	1.5	28,016	2.6
Total	<u>933,553</u>	<u>100.0</u>	<u>1,036,329</u>	<u>100.0</u>	<u>1,081,546</u>	<u>100.0</u>

Gross Profit and Gross Profit Margin

For the years ended December 31, 2023, 2024 and 2025, our gross profit amounted to RMB212.0 million, RMB213.1 million and RMB253.2 million, respectively. Our gross profit margin was 18.5%, 17.1% and 19.0%, respectively.

Gross Profit and Gross Profit Margin by Product Types

The following table sets forth a breakdown of our gross profit and gross profit margin for the years indicated:

	For the year ended December 31,					
	2023		2024		2025	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Toxic decoction-ready products	46,158	24.0	32,862	19.1	32,372	23.5
Non-toxic decoction-ready products	<u>165,860</u>	<u>17.4</u>	<u>180,211</u>	<u>16.7</u>	<u>220,789</u>	<u>18.4</u>
Total gross profit/overall gross profit margin	<u>212,018</u>	<u>18.5</u>	<u>213,073</u>	<u>17.1</u>	<u>253,161</u>	<u>19.0</u>

The gross profit margin of toxic decoction-ready products decreased from 24.0% in 2023 to 19.1% in 2024, and recovered to 23.5% in 2025. As a majority of our revenue from toxic decoction-ready products are from *Rhizoma pinelliae preparatum* (法半夏) (薑半夏), the fluctuation of our gross profit margin for toxic decoction-ready products were generally reflecting the gross profit margins of these products. Please refer to “— Description of Selected Components of the Consolidated Statements of Profit or Loss and Other Comprehensive Income — Gross Profit and Gross Profit Margin — Gross Profit and Gross Product Margin of Top Five Best-selling Products.” for a detailed analysis of these two products.

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For non-toxic decoction-ready products, the gross profit margin declined from 17.4% in 2023 to 16.7% in 2024. This decrease reflected raw material cost increases while our averaging selling prices for major products remained stable as many of these products were sold with price-lock mechanisms under the procurement agreements, which limit our ability to adjust selling prices in response to raw material cost fluctuations. Key materials experiencing substantial price increases included *Fritillaria cirrhosa* (川貝母), *Ziziphus jujuba* seeds (酸棗仁), *Ophiopogon japonicus* (麥冬), *Coptis chinensis* (黃連), and *Angelica sinensis* (當歸). The margin recovered to 18.4% in 2025 following the stabilization and subsequent moderation of raw material prices.

The substantial escalation in TCM raw material prices during 2023 and 2024 stemmed from multiple interconnected factors. First, the lingering effects of the COVID-19 pandemic disrupted traditional cultivation and harvesting operations while simultaneously depleting inventory levels due to increased TCM utilization in pandemic treatment; the subsequent post-pandemic consumption recovery further amplified demand pressures against constrained supply. Second, cultivation costs experienced systematic increases driven by rising land rental fees, labor expenses, and agricultural input costs, which were transmitted to market prices.

Please see below a detailed analysis on the gross profit and gross product margin of our major products.

Gross Profit and Gross Product Margin of Top Five Best-selling Products

The following table sets forth a breakdown of the profit and profit margin of our top five best-selling products that generated the highest revenue for the year ended December 31, 2025, for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	Product profit	Product profit margin	Product profit	Product profit margin	Product profit	Product profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<i>Fritillaria Cirrhosa</i> (川貝母)	6,316	5.8	6,435	6.0	8,284	9.5
<i>Dwarf Lilyturf</i> (麥冬)	3,104	7.5	12,734	19.3	4,257	10.7
<i>Rhizoma Pinelliae Preparatum</i> (法半夏)	19,872	34.5	15,295	25.4	16,115	33.0
<i>Stir-fried Ziziphi Spinosa</i> <i>Semen</i> (炒酸棗仁)	6,255	6.5	6,719	12.5	10,111	26.1
<i>Coptis root</i> (黃連)	1,630	5.7	1,203	4.1	2,467	7.8

Note: Product profit refers to sales revenue after deducting raw material costs.

Generally, given the nature of our business, our product profit margin for each product is affected by the raw material costs. Sets forth below is a detailed analysis of the product profit margin fluctuations of our top five best-selling products. Please also see “Risk Factors — Risks Relating to Our Business — Our business and profitability may be adversely affected by price fluctuations and supply shortages of TCM raw materials” for details.

Fritillaria Cirrhosa (川貝母)

During the Track Record Period, the product profit margin for *Fritillaria Cirrhosa* was relatively stable at 5.8%, 6.0% and 9.5% in 2023, 2024 and 2025. The increase in its product profit margin in 2025 was primarily results from hospital and medical institution channels, as we are able to negotiate a higher selling prices in these channels.

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Dwarf Lilyturf (麥冬)

During the Track Record Period, the product profit margin for *Dwarf Lilyturf* was primarily affected by the extreme fluctuation of raw material cost. Product profit margin of *Dwarf Lilyturf* increased from 7.5% in 2023 to 19.3% in 2024, due to the drop of raw material cost, which drove up the profit margin of the sales to medical trading companies and pharmacies, while the profit margin sales to hospitals remained relatively stable. In 2025, its product profit margin decreased to 10.7%. Such decrease was primarily because the low cost inventory of *Dwarf Lilyturf* was depleted and we restocked at an increased market price.

Rhizoma Pinelliae Preparatum (法半夏)

During the Track Record Period, *Rhizoma Pinelliae Preparatum*'s product profit margin amounted to 34.5%, 25.4% and 33.0% in 2023, 2024 and 2025. The decrease in 2023 was primarily driven by hospital and medical institution channels. Given the price lock-up in the framework agreements with hospitals, which typically has a term of two years, the decrease was largely attributable to the lag in price adjustments in public hospitals, while raw material costs continued to rise throughout the year. In 2025, our product profit margin for *Rhizoma Pinelliae Preparatum* slightly increased from 25.4% in 2024 to 33.0%. As the framework agreements with hospitals ensured that the sales prices were not reduced in line with the drop in raw material costs, an increase in the gross profit margin from hospital channel can be witnessed in 2025.

Stir-fried Ziziphi Spinosae Semen (炒酸棗仁)

During the Track Record Period, the product profit margin for stir-fried *Ziziphi Spinosae Semen* amounted to 6.5%, 12.5% and 26.1% in 2023, 2024 and 2025. The increase in its product profit margin in 2024 was primarily driven by the reduction in raw material costs, while our sales prices remained relatively stable. In particular, selling prices for hospital channels were locked in under two-year framework agreements, which maintained price stability despite the declining cost base. This combination of reduced costs and stable pricing, supported by the strong premium associated with our brand and quality standards, resulted in margin expansion. In 2025, its product profit margin further increased to 26.1%, primarily driven by the continued decrease in raw material costs, while sales prices remained relatively stable for similar reasons.

Coptis Root (黃連)

During the Track Record Period, the product profit margin for *Coptis root* amounted to 5.7%, 4.1% and 7.8% in 2023, 2024 and 2025. The decrease in its product profit margin in 2024 was primarily an increase in raw material costs while the selling prices of *Coptis root* remained relatively stable. The increase in its product profit margin in 2025 was primarily a decrease in raw material costs while the selling prices of *Coptis root* remained relatively stable.

The following table sets forth a breakdown of the sales volume and average selling price of our top five best-selling products that generated the highest revenue for the year ended December 31, 2025, for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	Sales Volume	Average Selling Price	Sales Volume	Average Selling Price	Sales Volume	Average Selling Price
	ton	RMB'000 per ton	ton	RMB'000 per ton	ton	RMB'000 per ton
<i>Fritillaria Cirrhosa</i> (川貝母)	25	4,334	25	4,243	21	4,153
<i>Dwarf Lilyturf (麥冬)</i>	265	156	451	146	286	139
<i>Rhizoma Pinelliae Preparatum</i> (法半夏)	372	155	371	163	338	144
<i>Stir-fried Ziziphi Spinosae</i> <i>Semen (炒酸棗仁)</i>	98	981	64	832	62	625
<i>Coptis Root (黃連)</i>	90	323	80	374	90	351

The pricing of our products is primarily determined based on the cost of raw materials and is also affected by a number of factors including the supply and demand conditions in the market for our products, the prices of competitors, the level of difficulty in producing different categories of medicinal materials, the types of downstream customers, and relevant government policies.

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During the Track Record Period, the analysis of the average selling prices as compared to its average purchase price of raw materials of our major products are summarized as follows:

	For the year ended December 31,					
	2023		2024		2025	
	Average Selling Price	Average Purchase Price of Raw Materials	Average Selling Price	Average Purchase Price of Raw Materials	Average Selling Price	Average Purchase Price of Raw Materials
	<i>RMB'000 per ton</i>					
<i>Fritillaria Cirrhosa</i> (川貝母)	4,334	3,456	4,243	3,632	4,153	3,317
<i>Dwarf Lilyturf</i> (麥冬)	156	141	146	114	139	120
<i>Rhizoma Pinelliae Preparatum</i> (法半夏)	155	90	163	87	144	78
<i>Stir-fried Ziziphi Spinosae</i> <i>Semen</i> (炒酸棗仁)	981	872	832	616	625	597
<i>Coptis Root</i> (黃連)	323	308	374	374	351	330

Generally, the fluctuations of our purchase price for raw materials are determined based on market conditions. The decline in raw material prices affected our cost structure and was gradually reflected in the selling prices of the relevant products. In particular,

- In 2024, the selling price of *Fritillaria cirrhosa* (川貝母) slightly decreased despite the stable-to-rising trend of its raw medicinal material price. This was mainly because downstream pharmaceutical enterprises made bulk and concentrated purchases during the high price period of 2024, which temporarily increased the proportion of sales of *Fritillaria cirrhosa* (川貝母) to pharmaceutical enterprises. As the TCM decoction ready products procured by pharmaceutical enterprises are generally priced lower other types of customers, the overall selling price decreased.
- *Rhizoma pinelliae preparatum* (法半夏) is toxic decoction piece, and its processing and production process are relatively more complex, allowing us to enjoy higher bargaining power.
- In 2025, the selling price of *Dwarf Lilyturf* (麥冬) decreased while our raw material procurement costs increased. The decrease in selling price was mainly driven by the implementation of the centralized procurement scheme.

For certain products, the profit margin and average selling price experienced disproportionate fluctuations. This was mainly because, although product selling prices were closely correlated with the fluctuations in raw medicinal material prices, the timing of passing on changes in raw material costs (whether increases or decreases) to downstream customers through product price adjustments was subject to certain delays. Such delays arose from multiple factors, including the frequency of downstream price adjustments, contractual pricing arrangements (whereby certain customers agreed to lock the prices within a fixed period or a specified purchase volume), and raw material procurement strategies. As a result, the extent of changes in product selling prices was not always fully aligned with changes in raw material costs.

For example, the average selling price of *Dwarf lilyturf* (麥冬) decreased by 6.4% in 2024 as compared to 2023, while the gross profit margin of *Dwarf lilyturf* (麥冬) increased from 7.5% in 2023 to 19.3% in 2024. As the product selling price adjustments lagged behind the continuous increase in raw material costs, the magnitude of changes in raw material costs exceeded that of the product prices, resulting in a significant decline in gross profit margin in 2023. In 2024, the decline in the selling price of stir-fried *Ziziphi spinosae semen* (炒酸棗仁) was smaller than the fluctuation in the price of its raw medicinal material. The main reason was that certain customers, such as large chain pharmacies, locked in prices during high-price periods. These price-lock arrangements were driven by factors such as large purchase volumes, continuous procurement cycles, and stable supply capacity, which together constrained the overall decrease in the average selling price of these products. Similar pricing dynamics and cost pass-through mechanisms also applied in 2025, and the fluctuations in the average selling prices and gross profit margins of the relevant products during the year were driven by factors consistent with those described above.

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During the Track Record Period, our gross profit margin decreased in 2024 because our percentage of sales to medical trading companies and pharmacies increased, and such customer types generally had lower margins due to market competition. Our gross profit margin increased in 2025, primarily due to the decrease in our raw materials costs associated with certain major products, while our average selling prices remained relatively stable. For details, see “— Results of Operations.”

Other Income and Gains

During the Track Record Period, our other income and gains consisted of (i) government grants income, which primarily certain subsidies we received from the government, (ii) investment income from various wealth management products, (iii) bank interest income, (iv) gains on disposal of items of property, plant and equipment, (v) foreign exchange differences and (vi) others. For the years ended December 31, 2023, 2024 and 2025, our other income and gains amounted to RMB4.7 million, RMB7.5 million and RMB8.7 million, respectively. The following table sets forth a breakdown of our other income and gains for the years indicated:

	For the year ended December 31,					
	2023		2024		2025	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<u>Other income</u>						
Government grants income . . .	3,077	65.7	4,914	65.5	5,578	64.4
Investment income	489	10.4	424	5.6	202	2.3
Interest income	977	20.8	1,337	17.9	2,041	23.6
Others	35	0.7	716	9.5	843	9.7
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Gains</u>						
Gains on disposal of items of property, plant and equipment	114	2.4	–	–	–	–
Foreign exchange differences, net	–	–	115	1.5	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>4,692</u>	<u>100.0</u>	<u>7,506</u>	<u>100.0</u>	<u>8,664</u>	<u>100.0</u>

Selling and Distribution Expenses

During the Track Record Period, our selling and distribution expenses consisted of employee benefit expenses, business development expenses, advertising and promotion expenses, and other expenses. For the years ended December 31, 2023, 2024 and 2025, our selling and distribution expenses amounted to RMB52.4 million, RMB50.5 million and RMB67.0 million, respectively. The following table sets forth a breakdown of our selling and distribution expenses in absolute amounts and as percentages of the total selling and distribution expenses for the years indicated:

	For the year ended December 31,					
	2023		2024		2025	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Employee benefit expenses . . .	36,210	69.1	33,082	65.6	45,709	68.2
Business development expenses	5,486	10.5	7,339	14.5	11,038	16.5
Advertising and promotion expenses	3,733	7.1	2,739	5.4	2,668	4.0
Others ⁽¹⁾	6,960	13.3	7,304	14.5	7,577	11.3
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>52,389</u>	<u>100.0</u>	<u>50,464</u>	<u>100.0</u>	<u>66,992</u>	<u>100.0</u>

Note:

(1) Others primarily include travel expenses and other miscellaneous expenses.

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Administrative Expenses

During the Track Record Period, our administrative expenses consisted of employee benefit expenses, [REDACTED] expenses, business taxes and surcharges, raw material disposal, depreciation and amortization, office expenses, professional service fees and others. For the years ended December 31, 2023, 2024 and 2025, our administrative expenses amounted to RMB34.0 million, RMB46.3 million and RMB61.9 million sets forth a breakdown of our administrative expenses in absolute amounts and as percentages of the total administrative expenses for the years indicated:

	For the year ended December 31,					
	2023		2024		2025	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
[REDACTED] expenses	–	–	11,081	23.9	20,664	33.4
Employee benefit expenses	11,083	32.6	13,331	28.9	16,231	26.2
Business taxes and surcharges.	4,269	12.5	5,946	12.8	4,833	7.8
Raw material disposal	4,015	11.8	5,131	11.1	1,691	2.7
Depreciation and amortization.	4,706	13.8	3,447	7.4	6,074	9.8
Office expenses	1,867	5.5	1,724	3.7	1,616	2.6
Professional service fees	3,004	8.8	854	1.8	1,331	2.1
Others ⁽¹⁾	5,092	15.0	4,804	10.4	9,483	15.4
Total	<u>34,036</u>	<u>100.0</u>	<u>46,318</u>	<u>100.0</u>	<u>61,923</u>	<u>100.0</u>

Note:

(1) Others primarily include travel expenses, rental expenses and other miscellaneous expenses.

Research and Development Expenses

During the Track Record Period, our research and development expenses consisted of employee benefit expenses, material expenses and other expenses. For the year ended December 31, 2023, 2024 and 2025, our research and development expenses amounted to RMB11.5 million, RMB17.1 million and RMB8.0 million, respectively. The following table sets forth a breakdown of our research and development expenses in absolute amounts and as percentages of the total research and development expenses for the years indicated.

	For the year ended December 31,					
	2023		2024		2025	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Material expenses	7,255	63.1	12,979	75.7	3,569	44.6
Employee benefit expenses	3,893	33.8	3,914	22.9	4,004	50.1
Others	353	3.1	232	1.4	424	5.3
Total	<u>11,501</u>	<u>100.0</u>	<u>17,125</u>	<u>100.0</u>	<u>7,997</u>	<u>100.0</u>

Impairment Losses

During the Track Record Period, our impairment losses were primarily related to inventories, and trade and other receivables. For the years ended December 31, 2023, 2024 and 2025, our impairment losses amounted to RMB7.1 million, RMB8.7 million and RMB7.2 million, respectively.

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Other Expenses

During the Track Record Period, our other expenses consisted of donations to charity, loss on disposal of property, plant and equipment, foreign exchange losses and others. For the years ended December 31, 2023, 2024 and 2025, our other expenses amounted to RMB0.2 million, RMB1.8 million and RMB2.1 million, respectively. The following table sets forth a breakdown of our other expenses in absolute amounts and as percentages of the total other expenses for the years indicated:

	For the year ended December 31,					
	2023		2024		2025	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Donations	171	97.2	1,116	60.4	1,656	80.0
Others	5	2.8	733	39.6	413	20.0
Total	176	100.0	1,849	100.0	2,069	100.0

Finance Costs

During the Track Record Period, our finance costs consisted of interest expenses on bank borrowings and lease liabilities. For the years ended December 31, 2023, 2024 and 2025, our finance costs amounted to RMB5.9 million, RMB5.8 million and RMB8.1 million, respectively.

Share of Profit and Loss in a Joint Venture

During the Track Record Period, our share of profit and loss in a joint venture represented our share of profit and loss in our joint venture, namely Eu Yan Sang Neautus (Hong Kong) Limited, which we disposed in 2023. For the years ended December 31, 2023, 2024 and 2025, we recorded share of loss of a joint venture of RMB46 thousand, nil and nil, respectively.

Loss on Disposal of a Joint Venture

During the Track Record Period, our loss on disposal of a joint venture represented our loss on disposal of 49% equity interest in Eu Yan Sang Neautus (Hong Kong) Limited. We record loss on disposal of a joint venture of RMB0.9 million in 2023, which was a non-recurring item.

Income Tax Expense

For the years ended December 31, 2023, 2024 and 2025, we recorded income tax expense of RMB0.7 million, RMB1.2 million and RMB1.1 million, respectively.

We are subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which our members are domiciled and operate.

Hong Kong

Our subsidiary which operates in Hong Kong is subject to profits tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Track Record Period.

Chinese Mainland

The provision for corporate income tax in Chinese Mainland is based on the statutory rate of 25% of the taxable profits determined in accordance with the Corporate Income Tax Law, which was approved and became effective on January 1, 2008, except for certain subsidiaries of us in Chinese Mainland which are granted tax concession and are taxed at preferential tax rates. In addition, our business related to primary processing of agricultural products was entitled to income tax exemption.

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We have been qualified as an Encouraged Industrial Enterprise based in the western region of Chinese Mainland for a period of three years from 2021 to 2024, and were entitled to a preferential CIT rate of 15% till 2024 during the Track Record Period. Our decoction-ready product business was entitled income tax exemption.

Our wholly-owned subsidiaries Chengdu Neautus and Neautus Pharmacy have been accredited as micro and small businesses from 2021 to 2024, and were entitled an income tax preferential rate of 20% of its taxable profits till 2024 during the Track Record Period.

Profit for the Year

For the years ended December 31, 2023, 2024 and 2025, our profit for the year amounted to RMB104.0 million, RMB89.1 million and RMB106.4 million, respectively.

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Year Ended December 31, 2025 Compared with Year Ended December 31, 2024

Revenue

Our revenue increased by 6.8% from RMB1,249.4 million in 2024 to RMB1,334.7 million in 2025, primarily driven by the increase in revenue from hospitals and medical institutions of RMB50.9 million. Such increase was mainly attributable to higher procurement volumes from certain major existing hospital and medical institution customers, despite a decrease in the total number of our public hospital customers during the year. In terms of product type, we recorded higher sales revenue from *Coptis root* (黃連) mainly resulting from the increased sales volume.

Cost of Sales

Our cost of sales increased by 4.4% from RMB1,036.3 million in 2024 to RMB1,081.5 million in 2025. The increase in our cost of sales was primarily driven by (i) higher raw material costs in line with increased sales volume, and (ii) an increase in other expenses primarily due to higher packaging costs, utility expenses and other indirect manufacturing overheads resulting from the increased sales volume.

Gross Profit and Gross Profit Margin

Our gross profit increased by 18.8% from RMB213.1 million in 2024 to RMB253.2 million in 2025, primarily due to the increase in revenue from non-toxic decoction-ready products and in sales to hospitals and medical trading companies.

Our gross profit margin increased from 17.1% in 2024 to 19.0% in 2025, primarily attributable to the decrease in our raw materials costs associated with certain major products, including *Coptis root* (黃連), *Fritillaria cirrhosa* (川貝母), and *Rhizoma pinelliae preparatum* (法半夏).

Other Income and Gains

Our other income and gains increased by 15.4% from RMB7.5 million in 2024 to RMB8.7 million in 2025, primarily due to increased income from government grants and bank investments.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 32.8% from RMB50.5 million in 2024 to RMB67.0 million in 2025, primarily due to (i) an increase in employee benefit expenses, due to salary adjustments and an expanded sales team to support business growth, and (ii) an increase in business development expenses as we strengthened customer interactions and business development activities.

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Administrative Expenses

Our administrative expenses increased by 33.7% from RMB46.3 million in 2024 to RMB61.9 million in 2025. The increase was primarily driven by (i) a significant increase in [REDACTED] expenses incurred for intermediary services related to our [REDACTED] process, and (ii) an increase in employee benefit expenses, as we expanded our administrative workforce to support the growth in sales scale; partially offset by a slight decrease in business taxes and surcharges.

Research and Development Expenses

Our research and development expenses decreased by 53.3% from RMB17.1 million in 2024 to RMB8.0 million in 2025, primarily due to a significant decrease in material expenses, caused by the decreased raw material costs for certain major products.

Impairment Losses

Our impairment losses decreased by 17.3% from RMB8.7 million in 2024 to RMB7.2 million in 2025, primarily due to a decrease in trade receivables, leading to the decreased impairment provisions.

Other Expenses

Our other expenses increased by 11.9% from RMB1.8 million in 2024 to RMB2.1 million in 2025, primarily due to the increase in the donations.

Finance Costs

Our finance costs increased by 40.6% from RMB5.8 million in 2024 to RMB8.1 million in 2025, primarily due to an adjustment in right-of-use asset following the modification of our lease agreement.

Share of Profit and Loss in a Joint Venture

We did not record any such profit/loss in 2024 and 2025.

Loss on Disposal of a Joint Venture

We did not record any such loss in 2024 and 2025.

Income Tax Expense

Our income tax expense remained relatively stable at RMB1.2 million in 2024 and RMB1.1 thousand in 2025.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 19.4% from RMB89.1 million in 2024 to RMB106.4 million in 2025.

Year Ended December 31, 2024 Compared with Year Ended December 31, 2023

Revenue

Our revenue increased by 9.1% from RMB1,145.6 million in 2023 to RMB1,249.4 million in 2024, primarily driven by the increase in revenue generated from hospitals and medical institutions of RMB90.0 million, primarily because we have been able to deepen collaboration with major hospital and medical institution customers; and an increase in revenue generated from medical

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trading companies of RMB58.6 million, primarily because we continued to expand our medical trading company customer base from 549 in 2023 to 606 in 2024, leveraging our capability of delivering a wide range of TCM decoction-ready products with a high quality standard, which was partially offset by the decrease in revenue generated from pharmacies and pharmaceutical companies, primarily due to the decline in purchase volume from certain key pharmacy and pharmaceutical customers, mainly attributable to their internal inventory adjustments.

In terms of product type, our sales of non-toxic decoction-ready products increased significantly by RMB123.9 million, as we increased the types of products we offered, and saw notable increases in sales volume of *Dwarf lilyturf* (麥冬) while its selling price only decreased slightly and the significant increases in the selling price of *Angelica sinensis* (當歸). This was partially offset by a decrease in sales of unprocessed *Pinellia ternata* as a result of the decreased demand from pharmaceutical companies, and a decrease in sales of stir-fried *Ziziphi spinosae semen* (炒酸棗仁) due to a decrease in both its sales volume and selling price.

Cost of Sales

Our cost of sales increased by 11.0% from RMB933.6 million in 2023 to RMB1,036.3 million in 2024. The increase in our cost of sales was primarily driven by (i) an increase in raw materials costs, attributable to the growth in sales volume and rising procurement costs due to price fluctuations for raw materials for certain major products, (ii) an increase in labor costs, mainly due to salary adjustments and workforce expansion, and (iii) an increase in freight costs, primarily as a result of higher logistics expenses associated with increased sales volume.

Gross Profit and Gross Profit Margin

Our gross profit increased by 0.5% from RMB212.0 million in 2023 to RMB213.1 million in 2024, primarily due to the increase in revenue from non-toxic decoction-ready products and in sales to hospitals and medical trading companies.

Our gross profit margin decreased from 18.5% in 2023 to 17.1% in 2024, primarily reflected the decrease in gross profit margin in certain products. For example, we experienced a decrease in gross profit margin in *Rhizoma pinelliae preparatum* (法半夏) and *Fritillaria cirrhosa powder* (川貝母粉), as a result of the increase in their raw materials costs, which exerted pressure on our overall profitability.

Other Income and Gains

Our other income and gains increased by 60.0% from RMB4.7 million in 2023 to RMB7.5 million in 2024, primarily due to increased income from government grants and bank investments.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 3.7% from RMB52.4 million in 2023 to RMB50.5 million in 2024, primarily due to (i) a decrease in advertising and promotion expenses as we optimized our marketing strategies, and (ii) a decrease in employee benefit expenses as a result of adjustments in sales personnel compensation; partially offset by an increase in business development expenses and other expenses, related to the enhanced business development activities.

Administrative Expenses

Our administrative expenses increased by 36.1% from RMB34.0 million in 2023 to RMB46.3 million in 2024. The increase was primarily driven by (i) a significant increase in [REDACTED] expenses incurred for intermediary services related to our [REDACTED] process, (ii) an increase in employee benefit expenses due to salary adjustments, and (iii) an increase in business taxes and surcharges as our operations expanded.

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Research and Development Expenses

Our research and development expenses increased by 48.9% from RMB11.5 million in 2023 to RMB17.1 million in 2024, primarily due to (i) an increase in material expenses, driven by the addition of three new R&D projects and the use of higher-value raw materials for research, and (ii) an increase in employee benefit expenses due to salary adjustments.

Impairment Losses

Our impairment losses increased by 23.0% from RMB7.1 million in 2023 to RMB8.7 million in 2024, primarily due to an increase in trade receivables and a rise in trade receivables aged two to three years, leading to higher impairment provisions.

Other Expenses

Our other expenses increased significantly from RMB176 thousand in 2023 to RMB1.8 million in 2024, primarily due to certain one-off donations we made in 2024.

Finance Costs

Our finance costs remained relatively stable at RMB5.9 million and RMB5.8 million in 2023 and 2024, respectively.

Share of Profit and Loss in a Joint Venture

We recorded share of loss of a joint venture of RMB46 thousand in 2023 primarily relating to the loss in our joint venture Eu Yan Sang Neautus (Hong Kong) Limited. We did not record any such loss in 2024.

Loss on Disposal of a Joint Venture

We recorded loss on disposal of a joint venture of RMB0.9 million in 2023 in relation to our disposal of 49% equity interest in Eu Yan Sang Neautus (Hong Kong) Limited. We did not record any such loss in 2024.

Income Tax Expense

Our income tax expense increased by 81.9% from RMB0.7 million in 2023 to RMB1.2 million in 2024, primarily due to an increase in our taxable income.

Profit for the Year

As a result of the foregoing, our profit for the year decreased by 14.3% from RMB104.0 million in 2023 to RMB89.1 million in 2024.

DESCRIPTION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth a summary of our consolidated statements of financial position as of the dates indicated.

	As of December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
Non-current assets			
Property, plant and equipment	150,847	163,330	167,946
Right-of-use assets	8,921	9,657	46,261
Other intangible assets	2,294	3,115	3,999
Investment in a joint venture	–	–	–

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	As of December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
Prepayments, other receivables and other assets	4,578	7,952	2,625
Total non-current assets	166,640	184,054	220,831
Current assets			
Inventories	218,531	242,956	246,163
Trade and bills receivables	503,803	557,937	613,535
Financial assets at fair value through other comprehensive income (“FVTOCI”)	7,532	26,575	11,030
Prepayments, other receivables and other assets	8,517	23,464	52,326
Pledged deposits	42,382	52,791	1,806
Time deposits	14,507	–	–
Cash and bank balances	137,198	144,310	181,377
Total current assets	932,470	1,048,033	1,106,237
Current liabilities			
Trade and bills payables	456,392	476,414	477,865
Lease liabilities	–	368	3,673
Other payables and accruals	46,755	123,105	56,402
Contract liabilities	2,703	2,947	3,027
Interest-bearing bank borrowings	120,120	161,751	139,868
Tax payables	1,619	714	132
Total current liabilities	627,589	765,299	680,967
Net current assets	304,881	282,734	425,270
Total assets less current liabilities	471,521	466,788	646,101
Non-current liabilities			
Interest-bearing bank borrowings	–	–	38,000
Lease liabilities	–	613	35,060
Deferred income	13,014	12,172	12,479
Total non-current liabilities	13,014	12,785	85,539
Net assets	458,507	454,003	560,562

Property, Plant and Equipment

During the Track Record Period, our property, plant and equipment primarily consisted of (i) buildings, (ii) vehicles, (iii) machinery, (iv) electronic and office equipment, and (v) construction in progress of production facilities. The following table sets forth the details of our inventories as of the dates indicated.

	As of December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
Buildings	124,867	120,665	124,818
Machinery	21,727	30,609	36,068
Construction in progress	–	6,826	239
Vehicles	1,876	3,122	4,101
Electronic and office equipment	2,377	2,108	2,720
Total	150,847	163,330	167,946

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Our property, plant and equipment increased from RMB150.8 million as of December 31 2023 to RMB163.3 million as of December 31, 2024, primarily due to (i) an increase in machinery of RMB8.9 million primarily relating to the decoction equipment we purchased, and (ii) an increase in construction in progress of RMB6.8 million in relation to our ongoing manufacturing facility expansion in 2024. In addition, our property, plant and equipment increased by 2.8% from RMB163.3 million as of December 31, 2024 to RMB167.9 million as of December 31, 2025, primarily driven by an increase in buildings related to the expansion and upgrading of our manufacturing activities.

Inventories

During the Track Record Period, our inventories primarily consisted of (i) finished goods, (ii) raw materials, (iii) work in progress and (iv) goods in transit. The following table sets forth the details of our inventories as of the dates indicated.

	As of December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
Finished goods	85,382	79,717	71,937
Raw materials	71,381	96,215	115,482
Work in progress	56,080	54,079	45,833
Goods in transit	12,057	19,003	20,899
	224,900	249,014	254,151
Less: Impairment losses	6,369	6,058	7,988
Total	218,531	242,956	246,163

Our inventories increased by 11.2% from RMB218.5 million as of December 31, 2023 to RMB243.0 million as of December 31, 2024, primarily because we strategically raised our inventory level in anticipation of sales growth. Our inventories increased by 1.3% from RMB243.0 million as of December 31, 2024 to RMB246.2 million as of December 31, 2025, primarily driven by the increase in the raw materials, which is in line with our sales growth. We recorded impairment losses on certain finished goods based on our assessment and estimates of the recoverable amount from year to year, and such balances remained relatively stable.

The following table sets forth an aging analysis of our inventories as of the dates indicated.

	As of December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
Within 1 year	216,776	229,569	218,163
1-2 years	1,663	13,136	26,652
Over 2 years	92	251	1,348
Total	218,531	242,956	246,163

Our inventory turnover days were 74, 81 and 82 days in 2023, 2024 and 2025. Inventory turnover days are calculated by dividing the average balance of inventories for the relevant year by cost of sales for the relevant year and multiplying by 365 days. The increase in our inventory turnover days from 2023 to 2024 was primarily due to the increase in raw material in inventory as we manage procurement cadence based on raw material costs.

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As of the February 28, 2026, RMB171.0 million, or 70.0%, of our inventories as of December 31, 2025, had been consumed.

Trade and Bill Receivables

During the Track Record Period, our trade and bill receivables primarily consisted of (i) trade receivables from third parties, and (ii) bill receivables, representing bank acceptance bills. The following table sets forth the details of our trade and bill receivables as of the dates indicated.

	As of December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
Trade receivables	508,100	566,431	616,342
Bills receivables	3,309	2,705	8,301
	511,409	569,136	624,643
Less: impairment losses.	7,606	11,199	11,108
Total	503,803	557,937	613,535

Trade Receivables

Our trade receivables primarily consisted of outstanding amounts due from our customers for products we have sold in the ordinary course of our business. Our trading terms with customers are mainly on credit, except for individual customers and certain distributors, where payment in advance is required. The credit period generally ranges from 0 days to 180 days. Trade receivables are generally settled in accordance with the terms of the respective contracts.

The following table sets forth the aging analysis of our trade receivables based on invoice date and net of loss allowance, as of the dates indicated.

	As of December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
0 to 180 days	448,526	483,764	510,639
181 to 360 days	40,660	54,609	79,255
1 to 2 years	10,822	15,374	14,881
2 to 3 years	486	1,485	459
Total	500,494	555,232	605,234

Our trade receivables turnover days were 145, 155 and 162 days in 2023, 2024 and 2025. Trade receivables turnover days are calculated by dividing the average balance of trade receivables for the relevant year by the total revenue for the relevant year and multiplying by 365 days. The increase in trade turnover days from 2023 to 2025 was mainly due to (i) the rising proportion of accounts receivable from hospital customers, which generally have longer credit terms, thereby leading to an overall extension of the trade receivable turnover period; (ii) the industry-wide downturn in the pharmacy sector.

We seek to maintain strict control over our outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by our senior management. We do not hold any collateral or other credit enhancements over our trade receivable balances. Trade receivables are non-interest-bearing.

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As of February 28, 2026, RMB185.0 million, or 31.0% of our trade receivables as of December 31, 2025 had been settled subsequently. For customers with trade receivables aged over 180 days and low subsequent settlement, we have made full or adequate provisions for impairment losses, taking into account various factors including historical payment patterns, creditworthiness of the customers, communication history, and the nature and continuity of the business relationship. In addition, a significant portion of the long-aged trade receivables are due from public hospitals, which have no history of bad debts and are considered highly creditworthy. Based on such assessment, our Directors are of the view that our trade receivables aged over 180 days are recoverable or have been sufficiently provided for, and there was no material recoverability issue identified as of the Latest Practicable Date.

Bill Receivables

Our bill receivables represent bank acceptance bills, which amounted to RMB3.3 million, RMB2.7 million and RMB8.3 million as of December 31, 2023, 2024 and 2025, respectively. Bill receivables are non-interest-bearing. Bills receivables as of the same dates were all aged within 180 days.

As of February 28, 2026, RMB700.0 thousand or 1.0% of our bill receivables as of December 31, 2025 had been settled subsequently.

Impairment Losses

The following table sets forth movements in the loss allowance for expected credit losses of trade receivables, as of the dates indicated.

	As of December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
At beginning of year	5,943	7,606	11,199
Impairment losses	1,809	3,646	37
Impairment written off	<u>(146)</u>	<u>(53)</u>	<u>(56)</u>
Reversal	–	–	(72)
At end of year	<u>7,606</u>	<u>11,199</u>	<u>11,108</u>

An impairment analysis is performed at the end of each Track Record Period, using a provision matrix to measure expected credit losses. The provision rates are based on the aging of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, and reasonable and supportable information that is available during the Track Record Period about past events, current conditions and forecasts of future economic conditions.

Financial Assets at FVTOCI

Our financial assets at FVTOCI represent bank accepted bill receivables. We normally choose either to discount them or endorse to suppliers. As of December 31, 2023, 2024 and 2025, we recorded financial assets at FVTOCI of RMB7.5 million, RMB26.6 million and RMB11.0 million, respectively.

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Prepayments, Other Receivables and Other Assets

During the Track Record Period, the current portion of our prepayments, other receivables and other assets consisted of (i) deposits, (ii) right-of-return assets, (iii) value-added tax recoverable, (iv) amounts due from a shareholder, (v) prepayments, representing prepaid selling and distribution expenses, prepaid internet service costs, and prepayment for raw material and other prepayments, (vi) deferred [REDACTED] expenses, (vii) impairment losses and (viii) other receivables. The non-current portion of our prepayments, other receivables and other assets consisted of (i) deposits, and (ii) prepayments for property, plant and equipment. As of December 31, 2023, 2024 and 2025, we recorded current portion of prepayments, other receivables and other assets of RMB8.5 million, RMB23.5 million and RMB52.3 million, respectively, and non-current portion of prepayments, other receivables and other assets of RMB4.6 million, RMB8.0 million and RMB2.6 million, respectively. The increase in our prepayments, other receivables and other assets as of December 31, 2024, was primarily due to value-added tax recoverables as we increased our procurement in 2024, which was in line with our business growth. The increase in our prepayments, other receivables and other assets as of December 31, 2025, was primarily due to an increase in amount due from Chengdu Kinna Investment Co., Ltd., which was primarily related to interest-bearing loans we provided to Chengdu Kinna Investment Co., Ltd.. The increase in loans provided to Chengdu Kinna Investment Co., Ltd. was mainly attributable to (i) before year-end 2024, we entered into certain refinancing arrangements with Chengdu Kinna Investment Co., Ltd., pursuant to which the original loan to support their property-related costs was fully repaid and subsequently re-extended in early 2025; and (ii) we provided new loans in 2025 to support their daily operations, including property-related costs such as maintenance, taxes, and tenant fit-out works.

Cash and Bank Balances

We had cash and bank balances of RMB137.2 million, RMB144.3 million and RMB181.4 million as of December 31, 2023, 2024 and 2025, respectively. For details on the fluctuations of our cash and bank balances during the Track Record Period, see “— Liquidity and Capital Resources — Cash Flows.”

Trade and Bill Payables

During the Track Record Period, our trade and bill payables consisted of (i) trade payables in connection with our procurement of raw materials, (ii) bills payable in connection with bank acceptance bills.

Our trade and bill payables increased by 4.4% from RMB456.4 million as of December 31, 2023 to RMB476.4 million as of December 31, 2024, primarily due to an increase in our procurement of raw materials to support our sales expansion. In addition, the trade and bill payables remained stable at RMB476.4 million as of December 31, 2024 and RMB477.9 million as of December 31, 2025.

An aging analysis of the trade and bill payables as of the end of each of the Track Record Period, based on the invoice date, is as follows:

	As of December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
Within 1 year	455,335	475,902	473,833
1 to 2 years	10	80	3,578
More than 2 years	1,047	432	454
Total	456,392	476,414	477,865

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Our trade and bill payables turnover days remained relatively stable at 149, 164 and 161 days in 2023, 2024 and 2025. Trade and bills payables turnover days are calculated by dividing the average balance of trade payables for the relevant year by the cost of sales for the relevant year and multiplying by 365 days.

As of February 28, 2026, RMB176.0 million, or 37.0%, of our trade and bills payables as of December 31, 2025 had been subsequently settled.

Other Payables and Accruals

During the Track Record Period, our other payables and accruals consisted of (i) payables to shareholders in relation to capital reduction, (ii) payroll payables, (iii) accrual related to sales return, sales rebate and other expense, (v) other payables related to property, plant and equipment and others, and (vi) other tax payables, mainly representing value-added tax payables. Our other payables and accruals increased from RMB46.8 million as of December 31, 2023 to RMB123.1 million as of December 31, 2024, primarily due to payables to a shareholder in relation to capital reduction of RMB73.8 million recorded as of December 31, 2024. In addition, our other payables and accruals decreased by 54.2% from RMB123.1 million as of December 31, 2024 to RMB56.4 million as of December 31, 2025, primarily because the payables to shareholders in relation to capital reduction were fully settled. For further details, see “History and Corporate Structure.”

The following table sets forth the details of our other payables and accruals as of the dates indicated.

	As of December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
Payables to shareholders in related to capital reduction	–	73,789*	–
Payroll payables	26,441	22,977	27,291
Accruals	12,844	15,485	17,072
Other payables	6,073	9,995	11,083
Other tax payables	1,397	859	956
Total	46,755	123,105	56,402

* As of the Latest Practicable Date, the amount was fully settled.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we funded our cash requirements principally from revenue from sales of products, bank borrowings, and [REDACTED] received from pre-[REDACTED] investments. As of December 31, 2025, we had cash and bank balances of RMB175.7 million. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of revenue from sales of product, funds raised from the capital markets from time to time and the [REDACTED] received from the [REDACTED].

Current Assets and Liabilities

	As of December 31,			As of February 28,
	2023	2024	2025	2026
	<i>(RMB'000)</i>			<i>(unaudited)</i>
Current assets				
Inventories	218,531	242,956	246,163	250,894
Trade and bills receivables	503,803	557,937	613,535	630,802

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	As of December 31,			As of February 28,
	2023	2024	2025	2026
		<i>(RMB'000)</i>		<i>(unaudited)</i>
Financial assets at fair value				
through other comprehensive				
income (“FVTOCI”)	7,532	26,575	11,030	9,403
Prepayments, other receivables				
and other assets	8,517	23,464	52,326	54,805
Pledged deposits	42,382	52,791	1,806	1,806
Time deposits	14,507	–	–	–
Cash and bank balances	137,198	144,310	181,377	126,464
Total current assets	932,470	1,048,033	1,106,237	1,074,174
Current liabilities				
Trade and bills payables	456,392	476,414	477,865	432,387
Lease liabilities	–	368	3,673	3,347
Other payables and accruals	46,755	123,105	56,402	50,344
Contract liabilities	2,703	2,947	3,027	2,816
Interest-bearing bank borrowings	120,120	161,751	139,868	139,789
Tax payables	1,619	714	132	–
Total current liabilities	627,589	765,299	680,967	628,683
Net current assets	304,881	282,734	425,270	445,491

Our net current assets increased from RMB425.3 million as of December 31, 2025 to RMB445.5 million as of February 28, 2026, primarily due to (i) an increase in trade and bills receivables of RMB17.3 million, and (ii) an increase in prepayments, other receivables and other current assets of RMB2.5 million. Such increases were partially offset by (i) a decrease in cash and bank balances of RMB54.9 million, and (ii) a decrease in financial assets at FVTOCI of RMB1.6 million. The increase in our net current assets was also attributable to a decrease in our current liabilities of RMB52.3 million, primarily due to a decrease in trade and bills payables of RMB45.5 million, partially offset by an increase in other payables and accruals of RMB6.1 million.

Our net current assets increased from RMB282.7 million as of December 31, 2024 to RMB425.3 million as of December 31, 2025, primarily due to (i) an increase in trade and bill receivables of RMB55.6 million in line with our sales growth, (ii) an increase in prepayments, other receivables and other assets of RMB28.9 million primarily attributable to the increase in bid deposits, and (iii) an decrease in financial assets at FVTOCI of RMB15.5 million, representing bank accepted bill receivables. The increase in our net current assets was also attributable to a decrease in our current liabilities of RMB84.3 million, primarily due to (i) a decrease in other payables and accruals of RMB66.7 million mainly as a result of the settlement of payables to shareholders related to capital reduction, and (ii) a decrease in interest-bearing bank borrowings of RMB21.9 million in line with the timing of our procurement and payment cycles.

Our net current assets decreased from RMB304.9 million as of December 31, 2023 to RMB282.7 million as of December 31, 2024, primarily due to (i) an increase in other payables and accruals of RMB76.4 million as we incurred payables to shareholders in related to capital reduction as of December 31, 2024, and (ii) an increase in interest-bearing bank borrowings of RMB41.6 million; partially offset by (i) an increase in trade and bill receivables of RMB54.1 million in line with our sales growth, (ii) an increase in inventories of RMB24.4 million as we strategically raised our inventory level in line with sales growth and (iii) an increase in financial assets at FVTOCI of RMB19.0 million, representing bank accepted bill receivables.

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Cash Flows

The following table sets forth the components of our consolidated statements of cash flows for the years indicated:

	For the year ended December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
Net cash flows generated from/(used in)			
operating activities	74,853	(467)	154,051
Net cash flows used in investing activities . . .	(15,997)	(7,699)	(46,177)
Net cash flows (used in)/generated from			
financing activities	(53,763)	15,184	(70,749)
Net increase in cash and cash equivalents . . .	5,093	7,018	37,125
Cash and cash equivalents at beginning of			
year	132,123	137,198	144,310
Effect of foreign exchange rate changes, net . .	(18)	94	(58)
Cash and cash equivalents at end of year	137,198	144,310	181,377

Net Cash Generated from/(Used in) Operating Activities

For the year ended December 31, 2025, we had net cash generated from operating activities of RMB154.1 million, which was primarily attributable to our profit before taxation of RMB107.5 million adjusted by certain non-cash and working capital items, including (i) positive adjustments, which primarily included a decrease in pledged deposits of RMB51.0 million, depreciation of property, plant and equipment of RMB14.1 million, a decrease in prepayments, other receivables and other assets of RMB8.5 million, partially offset by (ii) negative adjustments, which primarily included an increase in trade and bill receivables of RMB40.1 million and an increase in inventories of RMB10.4 million.

For the year ended December 31, 2024, we had net cash used in operating activities of RMB0.5 million, which was primarily attributable to our profit before taxation of RMB90.3 million adjusted by certain non-cash and working capital items, including (i) positive adjustments, which primarily included increase in trade and bills payables of RMB20.0 million and depreciation of property, plant and equipment of RMB12.2 million, and (ii) negative adjustments, which primarily included increase in trade and bill receivables of RMB77.0 million and increase in inventories of RMB29.5 million.

For the year ended December 31, 2023, we had net cash generated from operating activities of RMB74.9 million, which was primarily attributable to our profit before taxation of RMB104.6 million adjusted by certain non-cash and working capital items, including (i) positive adjustments, which primarily included increase in trade and bills payables of RMB148.3 million, and (ii) negative adjustments, which primarily included increase in trade receivables of RMB94.2 million, increase in inventories of RMB62.2 million and increase in pledged deposits of RMB42.4 million.

In 2024, we recorded a net operating outflow position, which was primarily due to (i) we settled a significant amount of the trade payables as of December 31, 2023 and (ii) we generally granted a longer credit term to our customers, as compared to the credit terms we were granted by our suppliers in 2024. We believe we will be able to improve such position going forward through the following measures: (i) strengthening control over trade receivable collections, (ii) improving inventory management policies to enhance inventory turnover days, and (iii) negotiate longer credit terms with our suppliers.

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Net Cash Used in Investing Activities

For the year ended December 31, 2025, we had net cash used in investing activities of RMB46.2 million, primarily attributable to a loan to a shareholder of RMB52.0 million and purchase of items of property, plant and equipment of RMB11.1 million, partially offset by repayment of loan from a shareholder of RMB18.0 million.

For the year ended December 31, 2024, we had net cash used in investing activities of RMB7.7 million, primarily attributable to purchase of items of property, plant and equipment of RMB21.4 million; partially offset by proceeds from withdrawal of time deposits with original maturity of more than three months of RMB14.0 million.

For the year ended December 31, 2023, we had net cash used in investing activities of RMB16.0 million, primarily attributable to purchase of items of property, plant and equipment of RMB17.1 million, partially offset by proceeds from disposal of a joint venture of RMB1.8 million.

Net Cash (Used in)/Generated from Financing Activities

For the year ended December 31, 2025, we had net cash used in financing activities of RMB70.7 million, primarily attributable to repayment of interest-bearing bank borrowings of RMB268.1 million and payments in relation to a capital reduction of RMB73.8 million, partially offset by new interest-bearing bank borrowings of RMB284.2 million.

For the year ended December 31, 2024, we had net cash generated from financing activities of RMB15.2 million, primarily attributable to new interest-bearing bank borrowings of RMB232.6 million; partially offset by repayment of interest-bearing bank borrowings of RMB191.0 million.

For the year ended December 31, 2023, we had net cash used in financing activities of RMB53.8 million, primarily attributable to (i) repayment of interest-bearing bank borrowings of RMB243.8 million and (ii) purchase of non-controlling interests of a subsidiary of RMB10.4 million, partially offset by new interest-bearing bank borrowings of RMB206.2 million.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including our cash and bank balances on hand, financial asset, available facilities and the estimated [REDACTED] from the [REDACTED], our Directors are of the view that we have sufficient working capital to meet our present needs and for the next 12 months from the date of this document. Our Directors confirm that we had no material defaults in payment of trade and non-trade payables during the Track Record Period.

INDEBTEDNESS

As of December 31, 2023, 2024 and 2025 and February 28, 2026, being the most recent practicable date for determining our indebtedness, except as disclosed in the table below, we did not have any material indebtedness. Since January 31, 2026 and up to the Latest Practicable Date, there had been no material change to our indebtedness.

	As of December 31,			As of February 28,
	2023	2024	2025	2026
	(RMB'000)			(unaudited)
Current				
Interest-bearing bank borrowings	120,120	161,751	139,868	139,789
Lease liabilities	–	368	3,673	3,347

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	As of December 31,			As of February 28,
	2023	2024	2025	2026
	<i>(RMB'000)</i>			<i>(unaudited)</i>
Non-current				
Interest-bearing bank borrowings	–	–	38,000	38,000
Lease liabilities	–	613	35,060	35,189
Total	<u>120,120</u>	<u>162,732</u>	<u>216,601</u>	<u>216,325</u>

Interest-Bearing Bank Borrowings

During the Track Record Period, we obtained certain interest-bearing bank borrowings from certain commercial banks in the PRC for supplementing our working capital. As of December 31, 2023, 2024 and 2025, the outstanding balances of our interest-bearing bank borrowings were RMB120.1 million, RMB161.8 million and RMB177.9 million, respectively. The outstanding balance of our interest-bearing bank borrowings increased from RMB161.8 million as of December 31, 2024 to RMB177.9 million as of December 31, 2025, primarily due to the bank borrowings we took on for the payment of share repurchases in accordance with the share repurchase agreements with certain Pre-[REDACTED] Investors. For details, see “History and Corporate Structure — Corporate Development and Major Shareholding Changes of Our Company — Major Shareholding Changes during and after the Track Record Period — Share Repurchase and Reduction of Registered Capital.” We have made the repayment on schedule. As of February 28, 2026, the outstanding balances of our bank borrowings amounted to RMB179.2 million and we had unutilized banking borrowings of RMB142.9 million.

The average effective interest rates of our borrowings as of December 31, 2023, 2024 and 2025, were 4.02%, 3.75% and 2.90%, respectively. Our bank borrowings agreements contain standard terms, conditions and covenants that are customary for commercial bank loans. For details, see Note 26 to the Accountants’ Report as set out in Appendix I of this document. The following table sets forth the details of our interest-bearing bank borrowings as of the dates indicated.

	As of December 31,			As of February 28,
	2023	2024	2025	2026
	<i>(RMB'000)</i>			<i>(Unaudited)</i>
Secured bank loans	–	–	38,035	–
Unsecured bank loans	–	45,053	139,833	179,206
Guaranteed bank loans	40,038	42,110	–	–
Secured and guaranteed bank loans	<u>80,082</u>	<u>74,588</u>	<u>–</u>	<u>–</u>
Total	<u>120,120</u>	<u>161,751</u>	<u>177,868</u>	<u>179,206</u>

Lease Liabilities

During the Track Record Period, our lease liabilities were primarily in relation to our lease of land use rights and buildings used in its operations. We recorded lease liabilities in aggregate of nil, RMB1.0 million, RMB38.7 million and RMB38.7 million as of December 31, 2023, 2024 and 2025 and February 28, 2026, respectively.

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CAPITAL EXPENDITURES

In 2023, 2024 and 2025, we incurred capital expenditures of RMB11.6 million, RMB24.8 million and RMB18.9 million, respectively, which was reflected in the addition to our property, plant and equipment. The following table sets forth the details of our capital expenditure for the years indicated.

	For the year ended December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
Buildings	200	–	–
Vehicles	1,665	1,977	1,928
Machinery	4,049	4,001	7,617
Electronic and office equipment	1,731	338	1,451
Construction in progress	3,944	18,455	7,900
Total	11,589	24,771	18,896

We plan to finance our future capital expenditures primarily with our existing cash and bank balances, revenue generated from sales of products and [REDACTED] from the [REDACTED]. See the section “Future Plans and [REDACTED]” in the document for more details. We may reallocate the fund to be utilized on capital expenditures based on our ongoing business needs.

CAPITAL COMMITMENTS

As of December 31, 2023, 2024 and 2025, we had capital commitments contracted for but not yet provided of RMB10.2 million, RMB17.0 million and RMB469 thousand, respectively, primarily in connection with purchase of items of property, plant and equipment. The following table sets forth our contractual commitments as of the dates indicated.

	As of December 31,		
	2023	2024	2025
	<i>(RMB'000)</i>		
Contracted, but not provided for:			
Purchase of items of property, plant and equipment	10,239	17,000	469
Total	10,239	17,000	469

CONTINGENT LIABILITIES

As of December 31, 2023, 2024 and 2025, we did not have any contingent liabilities. Our Directors confirm that there has been no material change in our contingent liabilities since December 31, 2025 to the date of this document.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We did not have during the years presented, and we do not currently have, any off-balance sheet arrangements such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating financing transactions that are not required to be reflected on our balance sheets.

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KEY FINANCIAL RATIOS

The following table set forth our key financial ratios as of the dates indicated:

	As of December 31,		
	2023	2024	2025
Current ratio ⁽¹⁾	1.49	1.37	1.62
Quick ratio ⁽²⁾	1.14	1.05	1.26
Net profit margin	9.1%	7.1%	8.0%
Net debt-to-equity ratio ⁽³⁾	(3.7%)	4.1%	6.3%
Interest coverage ratio ⁽⁴⁾	–	5,653	71.55
Return on assets ⁽⁵⁾	10.4%	7.6%	8.3%
Return on equity ⁽⁶⁾	25.3%	19.5%	21.0%

Notes:

- (1) Current ratio represents current assets divided by current liabilities as of the same date.
- (2) Quick ratio represents current assets minus inventories, divided by current liabilities as of the same date.
- (3) Net debt-to-equity ratio represents total debt (being interest-bearing bank borrowings and lease liabilities net of cash and cash equivalents) divided by total equity as at the end of the respective years.
- (4) Interest coverage ratio represents profit before interest and tax divided by interests on lease liabilities for the relevant years.
- (5) Return on assets represents profit for the year divided by the average of the beginning and ending total assets for that year and multiplied by 100%.
- (6) Return on equity represents profit for the year divided by the average of the beginning and ending balance of total equity for that year, then multiplied by 100%.

RELATED PARTY TRANSACTIONS

For details of our related party transactions during the Track Record Period, see Note 33 to the Accountants’ Report as set out in Appendix I to this document.

We enter into transactions with our related parties from time to time. Prior to the [REDACTED], the guarantee provided by related parties will be released, and the non-trade balances with related parties will be settled. Our Directors are of the view that each of the related party transactions in Note 33 to the Accountants’ Report as set out in Appendix I to this document was conducted in the ordinary course of business on an arm’s length basis and on normal commercial terms between the relevant parties. Our Directors are of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to a variety of market risks and other financial risks, including credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. For further details, including relevant sensitivity analysis, see Note 36 in the Accountants’ Report set out in Appendix I of this document.

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Credit Risk

We only trade with recognized and creditworthy third parties. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. For further details and an analysis of the credit quality and the maximum exposure to credit risk at the end of each year during the Track Record Period, see Note 36 of the Accountants’ Report set out in Appendix I to this document.

Liquidity Risk

We aim to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operations and bank borrowings. We review our major funding positions regularly to ensure that we have adequate financial resources in meeting its financial obligations. For further details and an analysis of the maturity profile of our financial liabilities and lease liabilities as of the end of each of the Track Record Period, see Note 36 of the Accountants’ Report set out in Appendix I to this document.

DIVIDENDS

We did not declare or pay any dividends during the Track Record Period. The declaration and payment of any dividends in the future will be determined by our shareholders and subject to our Articles of Association and the PRC Company Law, and will depend on a number of factors, including our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant. Currently, we do not have a dividend policy or pre-determined dividend ratio in place. As advised by our PRC Legal Advisors, any future after-tax profit that we make will have to be applied to make up for our historically accumulated losses in accordance with the PRC laws, after which we will be obliged to allocate 10% of our profit to our statutory common reserve fund until such fund has reached more than 50% of our registered capital. We will therefore only be able to declare dividends after (i) all our historically accumulated losses have been made up for; and (ii) we have allocated sufficient profit to our statutory common reserve fund as described above. In determining whether to declare a dividend, our Board will need to be satisfied that the declaration of dividend is in the best interest of the Company and may make provision for losses. [REDACTED] should not [REDACTED] our H Shares with the expectation of receiving cash dividends.

[REDACTED] EXPENSES

[REDACTED] expenses to be borne by us are estimated to be approximately HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per H Share, being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per H Share), representing approximately [REDACTED]% of the estimated [REDACTED] from the [REDACTED] assuming no H Shares are issued pursuant to the [REDACTED]. The [REDACTED] expenses consist of (i) [REDACTED]-related expenses, including [REDACTED] commission, of approximately HK\$[REDACTED], and (ii) non-[REDACTED]-related expenses of approximately HK\$[REDACTED], comprising (a) fees and expenses of our legal advisors and reporting accountants of approximately HK\$[REDACTED], and (b) other fees and expenses of approximately HK\$[REDACTED]. During the Track Record Period, the [REDACTED] expenses charged to our consolidated statements of profit or loss were HK\$[REDACTED] and the issue costs, which was recognized as prepayments and are expected to be deducted from equity upon the [REDACTED], were HK\$[REDACTED]. After the Track Record Period, approximately HK\$[REDACTED] is expected to be charged to our consolidated statements of profit or loss, and approximately HK\$[REDACTED] is expected to be accounted for as a deduction from equity upon the [REDACTED]. We do not believe any of the above fees or expenses are material or are unusually high to us. The [REDACTED] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

FINANCIAL INFORMATION

[REDACTED]

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, except as disclosed in “Summary — Recent Developments and No Material Adverse Change” and up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since December 31, 2025, and there is no event since December 31, 2025, that would materially affect the information as set out in the Accountants’ Report included in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, they were not aware of any circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.