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ZJLD Group Inc

珍酒李渡集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6979)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2023**

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended December 31, 2023, together with the comparative figures for the year ended December 31, 2022, as below.

FINANCIAL HIGHLIGHTS

The following table sets forth our key financial data for the year ended December 31, 2023, together with the comparative figures for the year ended December 31, 2022 and the change (expressed in percentages).

	For the year ended December 31,		Change (%)
	2023 (RMB'000)	2022 (RMB'000)	
Revenue	7,030,467	5,855,917	20.1
Gross profit	4,079,948	3,238,930	26.0
Profit attributable to equity shareholders of the Company for the year	2,327,083	1,029,866	126.0
Adjusted net profit (non-IFRS measure) ⁽¹⁾	1,622,602	1,197,289	35.5
Net cash generated from/(used in) operating activities	361,226	(710,616)	150.8
Net increase in cash and cash equivalents	4,011,543	120,431	3,231.0
Earnings per share			
– Basic earnings per share (RMB) ⁽²⁾	0.78	0.44	77.3
– Diluted earnings per share (RMB) ⁽³⁾	0.49	0.43	14.0

The following table sets forth certain of our key financial ratios for the year ended December 31, 2023, together with the comparative figures for the year ended December 31, 2022.

	For the year ended December 31	
	2023 <i>(%)</i>	2022 <i>(%)</i>
Gross profit margin	58.0	55.3
Net profit margin	33.1	17.6
Adjusted net profit margin (non-IFRS measure) ⁽¹⁾	23.1	20.4

Notes:

- (1) For more details on the non-IFRS measures, please see the section headed “Non-IFRS Measures” in this announcement.
- (2) The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares in issue. For more details, please see note 8 to the annual consolidated financial statements set out in this announcement.
- (3) The calculation of diluted earnings per share is based on (a) the profit attributable to ordinary equity shareholders of the Company used in the basic earnings per share calculation, adjusted by the changes in fair value in financial instruments issued to an investor; and (b) the weighted average number of ordinary shares (diluted). For more details, please see note 8 to the annual consolidated financial statements set out in this announcement.

CHAIRMAN’S STATEMENT

Dear Shareholders,

Despite the challenging macroeconomic and capital market environment in 2023, ZJLD Group successfully listed on the Hong Kong Stock Exchange on April 27, 2023 and completed Hong Kong’s largest IPO of the year. ZJLD Group is also the first baijiu company to have listed in nearly eight years. On behalf of ZJLD Group, I would like to extend our sincere gratitude to our Shareholders, as we could not have achieved such a remarkable milestone without their trust and support. We will continue to uphold the spirit of “invigorating our nation with entrepreneurship” and “long-termism”, as well as give back to our Shareholders, distributors, consumers and the society.

Being the helmsman of ZJLD Group, I make it our mission to “craft fine baijiu, deliver happiness, and foster a better life for consumers”. As such, we firmly adhere to the seven principles of “wholeheartedly brewing fine baijiu; exquisitely crafting products; entrenching culture in brand development; sincerely developing channels; carefully creating immersive experiences; conscientiously operating our business; and courageously shouldering responsibilities to prosper”. These seven principles serve as a testament to our unwavering commitment towards long-termism. We believe that our Group will only be able to ride through cycles and achieve sustainable quality growth, by upholding long-termism and staying committed to undertaking arduous yet virtuous endeavours.

Competition in the baijiu industry is constantly evolving. For a baijiu company to stand out from the current competition, the four elements that I consider key are: brand development, production capacity, distribution channels and team building. Our Group formulated clear strategies around these four elements and has been actively and effectively implementing them with great determination.

- In terms of brand development, we primarily focus on experiential marketing and engage core target consumers through immersive experiences, such as tasting events and distillery tours, to avoid over-reliance on undifferentiated advertising approaches. Through years of effort, *Zhen Jiu* and *Li Du* have established a distinctive brand identity within our target consumer groups and significantly enhanced their brand appeal, laying the foundation for our continued rapid growth.
- Production capacity is crucial for enabling a premium sauce aroma baijiu brand to outshine its competitors. A production capacity advantage builds a “deep moat” that protects baijiu companies from competition. Such an advantage cannot be surpassed in the short term and also translates into a significant competitive edge in terms of product superiority. With the proceeds of our pre-IPO investments and Hong Kong IPO, our production capacity managed to achieve “leap-forward” growth since 2021. *Zhen Jiu* has emerged as the third-largest baijiu company in terms of production capacity in Guizhou Province, the core production region for sauce aroma baijiu. We firmly believe that our production capacity advantage will act as a robust safeguard for our future sales expansion and product enhancement endeavors.

- ZJLD Group has been dedicated to building an extensive and consumer-centric distribution network that operates on a flat structure with nationwide coverage, and a model that allows meticulous management throughout the entire channel. At the same time, we have placed a strong emphasis on enhancing sell-through and sell-out by establishing a robust channel order and pricing system, which enables us and our distributors to achieve mutual benefits and growth. We firmly believe that the combination of attractive channel margins and ongoing empowerment of our distributors has transformed our distribution channels into a powerful driving force behind our rapid and significant scale expansion.
- An outstanding enterprise needs, and is able to further cultivate, high-quality talents. Our accomplishments in the past resulted from the collective efforts of our many outstanding, long-term talents who share our values. Following our Listing, we have been able to further leverage our advantage as an internationally listed company to attract and retain more high-quality talents. Consequently, we granted share awards under the Post-IPO Equity Incentive Plan to almost all key personnel of our Group in October 2023. I believe that with our incredibly cohesive and capable team, our Group will voyage further and achieve even greater success.

ZJLD Group places utmost importance on ESG operations. In 2023, we completed more than 150 ESG management and enhancement initiatives and achieved significant advancement across key ESG performance indicators. Furthermore, we surpassed our strategic environmental targets for 2025 achieving well ahead of schedule. Our efforts have been recognized by various sectors of the community. In 2023, *Zhen Jiu*'s ESG practices were reported by the People's Daily (《人民日報》) on five counts. In the third quarter of 2023, our Group obtained an "AA" ESG rating from Wind (萬得) and was later rated as one of the Top 100 Best ESG Practices (ESG 實踐最佳 100 強) among the listed companies in Greater China in 2023 by Wind, making us the only baijiu company to receive such an honor. In addition, *Zhen Jiu* was one of the five baijiu companies recognized as the National Green Factory (國家級綠色工廠) in 2023, and was recorded as one of the "Excellent Cases of Corporate Social Responsibility of Chinese Private Enterprises (2023)" (《中國民營企業社會責任優秀案例(2023)》). We are dedicated to forging ahead on the path of sustainable development, aiming to establish ourselves as a prominent ESG leader in the baijiu industry.

Looking forward to 2024, I have identified "putting in sufficient efforts and facing up to challenges" as the Group's guiding ideology. Strategically, we have thoroughly prepared ourselves for the competition and challenges that lie ahead. In terms of brand development, we are placing a strong emphasis on enhancing our tasting events and distillery tours to better cultivate our core target consumer groups. We will also take a targeted approach in advertising through selected media channels, and explore the breadth and depth of our brand development strategy. On the realm of product development, we anticipate an increase in our sauce aroma base liquor reserve to nearly 100,000 tons this year, which will enable us to further elevate the quality of our existing flagship products and launch more products that cover different consumption scenarios and price ranges. To strengthen our channel development, we have initiated a dual-channel growth strategy for *Zhen Jiu* that deploys dedicated strategies and teams to develop traditional and emerging channels, respectively. We remain committed to invest in establishing well-organized distribution channels and enhance the quality of our distributors. In terms of regional expansion, we will continue to penetrate key regions to increase our market share, while selectively expanding into areas with high growth potential. Last but not least, the completion of our planned adjustments in organizational structure has formed a solid foundation to support our business development in 2024.

Although 2023 presented numerous challenges, ZJLD Group achieved its strategic goals for the year. This accomplishment has not only demonstrated our Group's agility and effectiveness in responding to challenges, the process leading up to such achievement has further strengthened our team's capabilities. We are therefore confident and capable of continuing to deliver value and quality growth to our Shareholders, distributors and consumers in 2024.

We will keep on brewing happiness and spreading the joyfulness of life.

Mr. WU Xiangdong
ZJLD Group Inc
Chairman of the Board and Executive Director

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

We are a leading baijiu company in China devoted to the making of premium baijiu products. We produce and sell sauce aroma, mixed aroma and strong aroma baijiu, with sauce aroma baijiu being our major growth engine. According to Frost & Sullivan, we were the third largest private-owned baijiu company in China, in terms of revenue in 2023.

In 2023, we continued to capitalize on the growing popularity of sauce aroma baijiu throughout China, taking advantages of consumer preferences for premiumization and market consolidation and achieved sustainable and quality growth. In particular, we placed emphasis on the following key initiatives in respect of our business operations in 2023: (i) we prioritized product mix optimization to continue to expand our premium and above product portfolio and increase the revenue contribution of baijiu products with a higher gross profit margin within the same price range; (ii) we developed mid-range priced baijiu products to cater to demands for affordable yet high-quality baijiu products; (iii) we invested in resources to increase our baijiu production capacity, particularly in terms of our base liquor production volume, and further enhance our storage capacities for high-quality base liquor; (iv) we allocated more resources to drive sell-through and sell-out so as to promote our product turnover in the market; (v) we sought to maintain inventory held by our distributors at a healthy level and closely monitored their sales performance to ensure optimal distribution and sales; (vi) we advanced our multi-channel sales network with immersive promotion strategy and optimized our distributor base; (vii) through our exceptional baijiu research and development team and collaboration with professional institutions, we adopted strict control measures in the base liquor brewing process to bring out the ultimate flavor of our baijiu products; and (viii) we further improved our sales team's sales efficiency, following the adjustment of our organization structure. All of these efforts have transformed into our revenue growth and improved profitability during the year ended December 31, 2023, as compared to last year.

Our Brands and Products

We have built three tiers of growth engines. *Zhen Jiu*, our flagship brand featuring premium sauce aroma baijiu, is our major growth engine which continuously delivers strong and sizable growth across China, capturing the strong growth potential of the sauce aroma baijiu market and the premiumization trend. *Li Du*, our second growth engine and a brand featuring premium and above mixed aroma baijiu products, has delivered high growth and is expected to create additional momentum for continued growth as we are committed to further strengthen its brand recognition and nationwide sales network outside of Jiangxi province. *Xiang Jiao* and *Kai Kou Xiao*, our regional leading brands in the Hunan market, are expected to make steady and ongoing contribution to our long-term sustainable growth. We tactically position these four baijiu brands to target different consumer preferences and geographical regions in China, with our product portfolio covering three aroma profiles (i.e. sauce aroma, mixed aroma and strong aroma) across different price ranges, with an overall focus in the premium and above baijiu market. As the three-tier growth engines are in different phases of development, they complement one another and work in concert to drive our long-term growth.

Zhen Jiu

Our flagship brand, *Zhen Jiu*, primarily targets sauce aroma baijiu lovers who crave for premium, quality sauce aroma baijiu products. *Zhen Jiu* focuses on premium sauce aroma baijiu products and strategically enhances its presence within the deluxe price range, for the benefit of maintaining the momentum for the brand's steady sales growth and continued premiumization. In terms of revenue in 2023, *Zhen Jiu* became the fourth largest sauce aroma baijiu brand in China, as compared to the fifth place in the previous year, and achieved the highest year-on-year growth rate amongst the top five sauce aroma baijiu brands, according to Frost & Sullivan. For the year ended December 31, 2023, *Zhen Jiu* generated approximately 65.2% of our revenue.

Since its launch, *Zhen Jiu* has gradually optimized the recipes of its products to create iconic tastes appealing to consumers across China. We enjoyed tremendous success in making our popular sauce aroma baijiu products, including the Zhen 30 Series and Zhen 15 Series which achieved great market acceptance and international recognition. For example, Zhen 30 Series was awarded (i) the Grand Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles in 2021, (ii) the Double Gold Medal at San Francisco World Spirits Competition in 2022 and (iii) the Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles in 2023. Zhen 15 Series was awarded (i) the Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles for five times from 2017 to 2022, (ii) two Gold Medals at San Francisco World Spirits Competition in 2022 and (iii) the Silver Medal from the Spirits Selection by Concours Mondial de Bruxelles in 2023. In addition, in recognition of the outstanding sales performance of Zhen 15 Series from 2021 to 2022, it was awarded the Chinese Liquor Marketing Golden Goblet Award – Influential Product Award (中國酒業行銷金爵獎• 影響力產品獎) by the China Wine Business Association (中國酒類流通協會) in 2023. Moreover, *Zhen Jiu* was recognized by the World Brand Lab (世界品牌實驗室) as one of China's 500 Most Valuable Brands for 2023 (《2023 年中國 500 最具價值品牌》) with a brand value of approximately RMB21.3 billion in 2023, and ranked third amongst the sauce aroma baijiu brands for two consecutive years.

Zhen Jiu also continues to introduce new product series and sub-brands to increase market penetration. For example, in June 2022, we successfully launched a new sub-brand, *Ying Shan Hong* (映山紅), which mainly focuses on mid-range markets and utilizes predominantly online sales channels to reach its target customers. Since the first half of 2023, we have launched various new package-free baijiu products (光瓶酒) within the deluxe and premium price ranges, namely *Zhen 15 Series – Gold Medal Commemorative Edition* (珍十五系列•金獎紀念酒), *Zhen 30 Series – Grand Gold Medal Commemorative Edition* (珍三十系列•大金獎紀念酒), *1988 Vintage Baijiu* (1988 年份酒), *2011 Real Vintage Baijiu* (2011 真實年份酒) and *2012 Real Vintage Baijiu* (2012 真實年份酒), as the iconic products of our package-free baijiu product line.

Li Du

Li Du is a thriving brand featuring premium and above mixed aroma baijiu products, which has gained great success and has significant growth potential. Our *Li Du* products distinguish themselves from the other baijiu products by their signature taste and fine quality, unique immersive marketing approach stemming from the traditional Chinese culture, and premium brand positioning and operation. With these features, *Li Du* has gained a strong foothold in its base market, Jiangxi Province, and is strategically expanding its geographic reach across China to support its incremental and long-term growth. *Li Du* was the fifth largest mixed aroma baijiu brand in China and achieved the highest year-on-year growth rate amongst the top five mixed aroma baijiu brands, in terms of revenue in 2023, according to Frost & Sullivan. For the year ended December 31, 2023, *Li Du* generated approximately 15.8% of our revenue.

It was established to honor its origin from Lidu, Jiangxi Province, an ancient town in China that is steeped in its long-standing tradition of making baijiu. The baijiu-making techniques of *Li Du* were recognized as an Intangible Cultural Heritage of Jiangxi. In 2002, an ancient baijiu distillery of the Yuan Dynasty (1271 AD to 1368 AD) was discovered during the renovation of our production facility in Lidu, Jiangxi Province and was subsequently named on the list of Major National Historical and Cultural Sites. On April 27, 2023, *Li Du*, together with six other leading baijiu companies, jointly applied for Chinese baijiu to be included in China's tentative list of world cultural heritage.

Our *Li Du* brand includes a portfolio of selected mixed aroma baijiu products, featuring *Li Du Sorghum 1308* (李渡高粱1308), *Li Du Sorghum 1955* (李渡高粱1955) and *Li Du Sorghum 1975* (李渡高粱1975). *Li Du Sorghum 1955* and *Li Du Sorghum 1308* won the Grand Gold Medals from the Spirits Selection by Concours Mondial de Bruxelles in 2015 and 2019, respectively. *Li Du Sorghum 1975* was awarded the Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles in 2023.

In 2023, we launched a number of premium and mid-range baijiu products in order to expand product lines and increase market share of *Li Du*. We trust that the launch of these new *Li Du* products would lay a solid foundation for the future rapid development of the *Li Du* brand.

Xiang Jiao

Xiang Jiao is a regional leading premium baijiu brand in Hunan Province, with strong brand awareness and entrenched channel penetration in local market, which lays the groundwork for the brand's long-term sustainable development. Originally established in 1957, *Xiang Jiao* was synonymous with the rich cultural heritage of baijiu-making in Hunan Province and awarded the title of Hunan Provincial Governor Quality Award in 2012 and China Well-known Trademark in 2012. At *Xiang Jiao*, we offer a wide range of premium and deluxe baijiu products covering strong aroma, sauce aroma and mixed aroma profiles, represented by *Xiang Jiao Long Jiang* (湘窖•龍匠) Series, *Xiang Jiao Yao Qing* (湘窖•要情), *Xiang Jiao Red Diamond* (湘窖•紅鑽) and *Xiang Jiao Crystal Diamond* (湘窖•水晶鑽). Particularly, *Xiang Jiao Red Diamond* (湘窖•紅鑽) and *Yao Qing Jiang Jiu* (要情•醬酒) were awarded the Grand Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles in 2018 and 2023, respectively. *Xiang Jiao* generated approximately 11.9% of our revenue for the year ended December 31, 2023.

Kai Kou Xiao

Recognized as a China Well-known Trademark in 2010, *Kai Kou Xiao* is an established baijiu brand in Hunan with a focus on mid-range markets. We name the brand *Kai Kou Xiao*, or "A Big Smile" in English, because we aspire to spread the joyfulness of life through our baijiu products. We strategically focus on promoting and marketing our *Kai Kou Xiao* products in the local market in Hunan Province, in which we have achieved substantial market acceptance, which establishes the foundation for the brand's long-term sustainable development. At *Kai Kou Xiao* we mainly offer strong aroma baijiu products targeting the mid-range market, represented by *Kai Kou Xiao 15* (開口笑十五), *Kai Kou Xiao 9* (開口笑九), *Kai Kou Xiao 16* (開口笑十六) and *Kai Kou Xiao Fu Jiang* (開口笑福醬). In 2023, *Kai Kou Xiao 16* was awarded the Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles. *Kai Kou Xiao* generated approximately 5.5% of our revenue for the year ended December 31, 2023.

Product Development

Baijiu production technique is a precious national heritage of China, and we pride ourselves on inheriting the time-honored baijiu-making techniques and reinvigorating them to develop iconic recipes and flavor.

We have a dedicated product development team responsible for product development and package design. As of December 31, 2023, our product development team consisted of 233 employees, among whom a vast majority have a bachelor's degree or above. Our product development team is spearheaded by a technical committee consisting of 61 recognized baijiu experts with extensive industry experience, among whom eight are national baijiu appraisers, ten hold senior liquor-maker certificates, ten hold senior engineer qualifications and 33 are provincial baijiu adjudicators.

We have also strengthened our product development capabilities by collaborating with several universities and research institutions, such as Jiangnan University, Guizhou University, Central South University of Forestry and Technology and Tianjin University of Science and Technology. With the technical support from these academic institutions, we have identified certain traceable components in baijiu production for the enhancement of the flavor and functional quality of our baijiu products. Under our collaboration agreements with the third-party institutions, we retain the proprietary right to all jointly developed patents. On December 20, 2023, we entered into a strategic cooperation agreement with Jiangnan University and jointly established the Baijiu Fermentation and Technology Research Center in Zunyi, Guizhou Province, which will provide technical support to us and conduct research on the fermentation process, fermentation microorganisms, flavor perception and other cutting-edge and applied technologies of sauce aroma baijiu. We expect to have further in-depth collaboration with Jiangnan University on talent exchange and training programs and scientific research projects.

Production Facilities

We selectively locate *Zhen Jiu's* production facilities for sauce aroma baijiu in Guizhou's Zunyi region, a place that is widely considered ideal for making fine sauce aroma baijiu in China, to secure the unique texture and taste of our *Zhen Jiu* products. According to Frost & Sullivan, *Zhen Jiu* ranked fourth and third among all sauce aroma baijiu brands in China and Guizhou, respectively, in terms of annual production capacity of base liquor in 2022.

As of December 31, 2023, we operated seven production facilities in China. Our production facilities consist of qu-making plants, fermentation and distillation plants, blending plants, and filling and packaging plants, corresponding to the pivotal steps of baijiu-making. These production facilities are equipped with machinery, fermentation pits, barns, as well as bottling and packaging lines and warehouses. Furthermore, our production facilities are equipped with advanced technologies and equipment, including automated production lines, to streamline and optimize the entire production process.

In the past years, we have accumulated sufficient base liquor inventory to support a rapid growth of our premium and deluxe baijiu products. Sizable base liquor production capacity and accumulation of base liquor inventory have always been our strategic focus and core competitiveness. With the continuous expansion of our production capacity, we would be able to (i) reserve sufficient base liquor with long aging to continuously expand our premium and deluxe product offerings and strengthen our competitiveness in the premium and above baijiu markets in the future; (ii) provide sufficient high-quality base liquor to support the rising demand of our existing premium and above baijiu products; and (iii) gradually replace third-party base liquor supplies with our own base liquor to improve our gross profit margin.

Sales Channels

We have built a multi-channel sales network that effectively caters to the diverse needs of different consumer segments and enables us to continuously expand our reach to consumers. We gained access to our target consumers through a nationwide network of distributors consisting of (i) distribution partners, who primarily purchase our baijiu products from us and subsequently distribute them to sub-distributors, such as supermarkets and tobacco and liquor stores, and end consumers; (ii) store partners, with whom we collaborate closely with to establish our single-brand featured stores. These stores not only serve as retail outlets for our baijiu products, but also create immersive and engaging consumer experiences through a range of versatile events; and (iii) retailers, including tobacco and liquor stores, retail partners, restaurants and supermarkets which sell our products directly to end consumers. In addition to these distribution channels, we also have dedicated direct sales force organized by brand and geographic areas who primarily serve end consumers and corporate customers, ensuring a personalized and tailored approach to meet specific requirements of different customer groups. Furthermore, we also operate online stores on various e-commerce platforms in China, leveraging the power of digital platforms to reach a broader audience and provide the market with a convenient access to our products.

Since the fourth quarter of 2023, *Zhen Jiu* has implemented a dual-channel growth strategy. Distributors and consumers in traditional and emerging channels differ in terms of operating model, consumption pattern and development stage. Therefore, *Zhen Jiu* has further devised a clearer strategy for its two main business divisions so that each business division can develop traditional and emerging channels, respectively, each with a differentiation strategy for product portfolio, pricing mechanism and channel network. Such tailored approach for each type of channel allows us to maximize the effectiveness and efficiency in developing a particular distributor group and accordingly, achieve short-term growth as well as cultivate the high-potential distributor groups in emerging channels for the future growth of *Zhen Jiu*.

The following table sets forth the number of distributors involved in each type of distribution channel as at December 31, 2022 and December 31, 2023, respectively.

	As at December 31	
	2023	2022
Distribution partners	2,938	2,678
Featured stores	1,180	1,074
Retailers	3,143	2,866
Total	7,261	6,618

Digital Infrastructure

We adopted digital infrastructure to foster growth and optimize efficiency. We have established integrated digitalized management system as a core component to support major aspects of our operations. Leveraging the power of data analytics, we are able to make informed business decisions, streamline operations and improve cost effectiveness, which ultimately enhanced our overall profitability.

In terms of our production data, we have developed software and systems to manage our procurement, brewing and storage, so as to optimize the entire production process and improve supervision efficiency. For example:

- **Raw Grain Supply Chain System:** In 2023, we launched our raw grain supply chain system, which traces and monitors the whole process from grain allocation to procurement and warehousing, significantly improving our procurement efficiency while ensuring the quality of grain procurement.
- **Base Liquor Management System:** We have allocated a unique digital code for each base liquor container used for storage, so as to carry out fine management of base liquor with different vintages and values. We also use 3D scanning technology to establish digital models for the base liquor containers stored for aging, so that we can quickly measure and track the volume of stored base liquor with sensors in a more accurate and non-invasive way.

As for our sales data, we have developed proprietary Weixin applets and applications to directly engage with end-consumers, empower front-line employees, collect, and analyze key performance indicators of our business on a real-time basis. Particularly, we have utilized digital operation tools, coupled with a comprehensive set of channel inventory management policies, to optimize our channel inventory levels. For example:

- **Channel Management Platform** is our self-developed integrated service platform, including a number of Weixin applets and applications applied during the sales process to improve the transparency of the distribution channel and promote sales efficiency. By accessing the Weixin applets and logging into the applications, distributors can efficiently and conveniently manage the entire distribution process and perform logistics tracking, including procurement, inventory management and sales to consumers.
- We developed a QR code system which enables more efficient control and management of distribution channels. A QR code is assigned to each baijiu product and the whole distribution process can be recorded by scanning the QR code. This enables our marketing managers to promptly identify any possible misconduct during the sales process based on checking and analysis of the records for the expected distribution area, which significantly reduces labor costs while strengthening the control and management of distributors. Additionally, we closely inspect and analyze distributors' inventories on-site on both regular and unscheduled bases, which allows us to crosscheck the authenticity of their orders and inventory levels against the sales records enabled by our QR code system and consequently monitor the inventory level of our distributors throughout the entire distribution process.

By leveraging digital technology and data analytics, we have transformed our operations and achieved greater efficiency and profitability. This digital transformation also enables us to engage directly with our consumers, empower our employees, and make data-informed decisions that propel our business forward.

Business Updates

We have dedicated efforts to promote the development of our baijiu product lines while prioritizing environmental sustainability. Our commitment to sustainability is evident in our introduction of green packaging and outer-packaging-free options, leading the industry's sustainable packaging practice. In 2023, we have successfully launched several new package-free baijiu products in the deluxe and premium price ranges, namely *Zhen 15 Series – Gold Medal Commemorative Edition*, *Zhen 30 Series – Grand Gold Medal Commemorative Edition*, *1988 Vintage Baijiu*, *2011 Real Vintage Baijiu* and *2012 Real Vintage Baijiu*. These new products, together with the *2013 Real Vintage Baijiu* (2013真實年份酒) which was launched in early 2024, formed the core of our package-free baijiu product line. The launch and expansion of package-free baijiu product series is an illustration of our commitment to ESG initiatives. For this series, we have used biodegradable materials to package baijiu with a rare and precious body in a luxurious minimalist style. The combination of premium-quality baijiu and environmentally-friendly packaging makes these products an excellent choice for business banquets and private collections. Our unique and competitive deluxe and premium package-free baijiu products had contributed to *Zhen Jiu's* revenue growth and brand enhancement in 2023 and we expect this product line to continue driving revenue growth in 2024. We have also received certain market recognition of our social responsibility efforts and performance. In August 2023, we received an ESG “AA” rating from Wind, a financial information service provider in China. In December 2023, we were also rated as one of the Top 100 Best ESG Practices among all listed companies in Greater China by Wind, and was the only baijiu company that received such rating.

We have been working to build a consumer-centric distribution network that operates on a flat structure with nationwide coverage. We believe that the empowerment of our distributors and shared benefits throughout our distribution network would be a strong driving force to our expansion. In particular, we promote sell-through and sell-out by (i) making substantial efforts to optimize our existing distributor network, ensuring that we have a group of strong and capable distributors in key markets with an aim to increase our revenue contribution per distributor; (ii) deploying resources to facilitate our distribution partners to expand their sub-distribution network and to accelerate their product turnover, thereby boosting sell-through rate; and (iii) optimizing our resource allocation to invest in promoting purchase and consumption by end consumers, in order to improve sell-out.

In 2023, we had also placed an emphasis on establishing distribution channel order, supporting our distributors' healthy development and maintaining a relatively stable wholesale price level. Our effort has enhanced distributors' confidence in our brands and maintained profit margins at the distributor end, resulting in revenue growth and market share gains despite the current challenging industry environment. In addition to optimizing and empowering traditional distributors to expand the reach of our distribution channels, we have also provided comprehensive trainings to our professional promotion team dedicated for our package-free baijiu product series, taken a deep dive into high-quality customer groups, and realized an efficient transformation of resources by empowering our customers, with a focus on core geographical regions.

We had also continued to progressively increase our overall production capacity to satisfy market demand, by expanding our existing production facilities and constructing new production facilities. Our increased production capacity has allowed us to gradually increase our production of base liquor. The following are some of the highlights in relation to the development of our production facilities during 2023:

- **Zhen Jiu Mao Tai Zhen Shuang Long (茅台鎮雙龍):** In the first half of 2023, we obtained the land certificate for a parcel of land located in Zunyi, Guizhou, with an aggregate gross site area of approximately 96,775 square meters for the expansion of our Zhen Jiu Mao Tai Zhen Shuang Long production facility. During 2023, this production facility alone had increased our annual production capacity of sauce aroma base liquor by 2,400 tons. As at December 31, 2023, our aggregate annual production capacity of sauce aroma base liquor at this site had reached 3,400 tons. In 2023, we had also completed the demolition phase and initiated the creek gully treatment work at this site. We are currently in the process of finalizing the next phase construction plan.
- **Zhen Jiu Bai Yan Gou (白岩溝):** By the end of 2023, we had completed the main structural part of seven base liquor storerooms at the base liquor storage facility Zhen Jiu Bai Yan Gou. In 2024, we plan to commence the construction of building facade and outdoor ancillary facilities and buildings of these seven base liquor storerooms and thereafter put this base liquor storage facility into operation.
- **Li Du Zheng Jia Shan (鄭家山):** Our production facility Li Du Zheng Jia Shan is situated in Lidu, Jiangxi Province, with an aggregate gross floor area of 373,570 square meters. The following sets out a summary of construction progress and our future development plans for this site:
 - As at December 31, 2023, we had substantially completed the construction of production facilities at this site with a designed production capacity of 5,000 tons base liquor per annum. We had commenced operations in facilities for 2,000 tons production capacity in 2023. The remaining facilities for 3,000 tons production capacity had also been put into operation in early 2024.
 - In the second half of 2023, we commenced the construction of a semi-finished-product warehouse with a designed storage capacity of 17,800 tons base liquor. We expect to be able to utilize this warehouse in 2024.
 - We had also commenced the construction of packaging plants in late 2023 with the objective to meet the production output in the next three years. We plan to put these plants into operation by early 2025.
 - After the abovementioned development, there will still be room at this site for future expansion.
- **Xiang Jiao Jiang Bei (江北):** We had expanded the designed production capacity of Xiang Jiao Jiang Bei by 4,400 tons base liquor per annum. In 2023, we had completed and put into operation a new qu-making plant at this production facility. We had also invested in the construction of a new base liquor storeroom at this site which will increase our base liquor storage capacity by 4,000 tons. We expect that the construction will be completed in the second half of 2024.

We are a devoted promoter of traditional Chinese baijiu culture and actively involve in showcasing baijiu as China's unique cultural heritage. To this end, we co-sponsored the Second National Industrial Heritage Summit (第二屆國家工業遺產峰會) cum “Guobao Lidu” 2023 Chinese Baijiu for World Cultural Heritage Forum (“國寶李渡” 2023中國白酒申遺論壇) with the Industrial Culture Development Center of the Ministry of Industry and Information Technology (工業和信息化部工業文化發展中心), the Art Exhibitions China (中國文物交流中心), the Department of Industry and Information Technology of Jiangxi Province (江西省工業和信息化廳) and the People's Government of Nanchang Municipality (南昌市人民政府), which took place in Nanchang, Jiangxi Province in April 2023. We, together with six other leading baijiu companies, jointly applied for Chinese baijiu to be included in China's tentative list of world cultural heritage on April 27, 2023. On the same day, we launched *Li Du Wang The One Among A Thousand* (李渡王•千里挑一), the commemorative edition for this joint application.

Throughout the year, we have invested in promoting our brands, with *Zhen Jiu* leading the way in launching a new brand image advertisement campaign which integrates *Zhen Jiu* and the intangible cultural heritage of Tian-tsui (點翠 or “dotting with kingfishers”) so as to elevate its brand image and create a powerful “Zhen” symbol. These advertisements have been displayed in prominent positions at major airports, high-speed railway stations and city-center billboards since November 2023, showcasing the brand image of *Zhen Jiu* in a holistic and multi-dimensional manner. Our efforts in cultivating our brand image have garnered recognition from various sources in terms of brand value in 2023. On top of being one of the China's 500 Most Valuable Brands, we have been selected as one of the 2023 Chinese Brand Innovation Cases (2023中國品牌創新案例) as announced during the 2023 China Brand Forum (2023中國品牌論壇) organized by the People's Daily. This further reinforces our commitment to brand innovation and positions us as a notable example of successful brand development in China.

By investing in strategic brand promotion initiatives and showcasing our brand's unique identity, we have solidified our brand value and gained recognition within the industry. These achievements reflect our dedication to delivering exceptional products and experiences to our valued customers.

On April 27, 2023, the Company successfully listed its Shares on the Main Board of the Stock Exchange, being the largest IPO of the year on the Stock Exchange. This milestone achievement has laid a strong foundation for our future development. On September 4, 2023, the Company had been included as a constituent stock of the Hang Seng Composite Index, one of the benchmark indexes of the Stock Exchange. For further details, please refer to the voluntary announcement of the Company dated August 18, 2023. On December 15, 2023, the Company had been further included by FTSE Russell in four indices of the FTSE Global Equity Index Series. For further details, please refer to the voluntary announcement of the Company dated December 4, 2023.

OUTLOOK

Looking ahead into 2024, we are confident in our ability to further strengthen our market position in the sauce aroma baijiu market and premium and above baijiu market which will drive our sustainable growth. Specifically, we will continue to implement a comprehensive strategy that includes various key initiatives including focusing on (i) expanding our product portfolio across all price ranges and boosting the revenue contribution from baijiu products with a higher gross profit margin; (ii) allocating resources to increase our baijiu production capacity; (iii) advancing our multi-channel sales network with immersive promotion strategy; and (iv) putting efforts in maintaining well-organized distribution channels. Specifically for *Zhen Jiu*, we will firmly implement its dual-channel growth strategy, adopt various marketing tactics to drive sell-through and sell-out, streamline and enhance our distributor network as well as monitor our distributors' sales performance and inventory level. As for *Li Du*, we intend to (i) selectively and proactively explore its potential markets outside Jiangxi Province, while further deeply penetrate *Li Du*'s base market in Jiangxi Province, in order to support a rapid growth of this brand; and (ii) continue to expand the product matrix to include more premium and mid-range price range products, in an orderly manner, so as to prepare for the future scaled expansion of the *Li Du* brand.

In the coming year, recognizing the market opportunities presented by the premiumization and consolidation trends, we will allocate resources to increase our base liquor storage capacity, semi-finished-product storage capacity and qu bricks production capacity in various production facilities, strengthening our overall production capabilities. With our continuous optimization of our sales network and distribution channels, our emphasis on end-to-end marketing and our efforts to optimize our product mix and cost structure, we strive to maintain our healthy growth and improve our profitability in 2024.

Looking forward, the Group remains confident in the long-term development of China's baijiu industry and the Group's business in 2024, driven by the continuous trends of premiumization, rising of sauce aroma baijiu and market consolidation.

FINANCIAL REVIEW

Revenue

We offer a wide selection of baijiu products with diverse aroma profiles, and generate revenue from selling them through a nationwide network of distributors and our direct sales channels. Our revenue increased by 20.1% from RMB5,855.9 million for the year ended December 31, 2022 to RMB7,030.5 million for the year ended December 31, 2023.

Revenue by Baijiu Brand

The following table sets forth a breakdown of our sales volume, average selling price and revenue in absolute amounts and as percentages of the total revenue by baijiu brand, for the year ended December 31, 2022 and 2023, respectively.

	For the year ended December 31,							
	2023				2022			
	Sales Volume (tons)	Average Revenue (RMB'000)	Average Selling Price (RMB'000/ton)	% of Total Revenue (%)	Sales Volume (tons)	Average Revenue (RMB'000)	Average Selling Price (RMB'000/ton)	% of Total Revenue (%)
<i>Zhen Jiu</i>	12,630	4,583,208	363	65.2	12,856	3,822,696	297	65.3
<i>Li Du</i>	2,429	1,109,585	457	15.8	2,076	886,850	427	15.1
<i>Xiang Jiao</i>	1,415	833,629	589	11.9	1,075	712,791	663	12.2
<i>Kai Kou Xiao</i>	3,342	384,713	115	5.5	3,011	338,675	112	5.8
Others ⁽²⁾	6,251	119,332	19	1.7	4,855	94,905	20	1.6
Total	26,067	7,030,467	270	100.0	23,875	5,855,917	245	100.0

Notes:

- (1) Any discrepancies in this table between the total and sums of amounts are due to rounding.
- (2) This category consists primarily of baijiu products under the brand *Shao Yang*.

For the year ended December 31, 2023, all of our four major baijiu brands had experienced revenue growth.

- Our revenue generated from *Zhen Jiu* increased by 19.9% from RMB3,822.7 million for the year ended December 31, 2022 to RMB4,583.2 million for the year ended December 31, 2023 primarily due to (i) the growth in revenue generated from products in all price ranges, including (a) the products in the deluxe price range as a result of the excellent performance of Zhen 30 Series, as well as the package-free series and the vintage series after their launches, (b) the premium price range products driven by the Zhen 15 Series products, and (c) the mid-range or below products driven by products represented by *Lao Zhen Jiu* (老珍酒) and *Ying Shan Hong*; and (ii) an improvement in the revenue contribution per distributor from our distribution partners and retailers due to the optimization of the quality of our distribution network.
- Our revenue generated from *Li Du* increased by 25.1% from RMB886.9 million for the year ended December 31, 2022 to RMB1,109.6 million for the year ended December 31, 2023 primarily due to the increase in both average selling prices and sales volumes, which are mainly attributable to the increased average selling prices of *Li Du*'s core products and the increased sales volumes across regions driven by our nationwide sales network expansion.
- Our revenue generated from *Xiang Jiao* increased by 17.0% from RMB712.8 million for the year ended December 31, 2022 to RMB833.6 million for the year ended December 31, 2023 primarily due to the surge in revenue generated from products in the deluxe and premium price ranges represented by our Long Jiang series.

- Our revenues from *Kai Kou Xiao* increased by 13.6% from RMB338.7 million for the year ended December 31, 2022 to RMB384.7 million for the year ended December 31, 2023 primarily due to (i) the continuous enhancement of sales channel and (ii) the outstanding performance of *Kai Kou Xiao Fu Jiang* series.

Revenue by Price Range

The following table sets forth a breakdown of our revenue in absolute amounts and as percentages of the total revenue by price range for the year ended December 31, 2022 and 2023, respectively.

	For the year ended December 31,			
	2023		2022	
	Revenue	% of Total	Revenue	% of Total
	(RMB'000)	(%)	(RMB'000)	(%)
Deluxe	1,915,859	27.3	1,438,700	24.6
Premium	2,753,841	39.2	2,388,084	40.8
Mid-range and below	2,360,767	33.6	2,029,133	34.6
Total	7,030,467	100.0	5,855,917	100.0

Note: Any discrepancies in this table between the total and sums of amounts are due to rounding.

For the year ended December 31, 2023, we have continued to optimize our product portfolio and expand our deluxe product offerings:

- Our revenue generated from deluxe baijiu products increased by 33.2% from RMB1,438.7 million for the year ended December 31, 2022 to RMB1,915.9 million for the year ended December 31, 2023 primarily due to the surge in revenue generated from deluxe products under *Zhen Jiu*, as well as *Li Du Sorghum 1308* and *Xiang Jiao Long Jiang* Series in deluxe price range.
- Our revenue generated from premium baijiu products increased by 15.3% from RMB2,388.1 million for the year ended December 31, 2022 to RMB2,753.8 million for the year ended December 31, 2023 primarily due to the significant revenue growth in three core product lines within the premium price range, namely, *Zhen 15 Series*, *Xiang Jiao Long Jiang* Series in premium price range, and *Li Du Sorghum 1975*. We had been refining our premium price range product structure by strategically cutting down several non-core products and customized products under the *Zhen Jiu* brand, so as to focus more on developing the core product series in the premium price range.
- Our revenue generated from mid-range and below baijiu products increased by 16.3% from RMB2,029.1 million for the year ended December 31, 2022 to RMB2,360.8 million for the year ended December 31, 2023 primarily due to the increase in revenue generated from mid-range baijiu products under *Zhen Jiu* and *Li Du*. In 2023, apart from the continuous premiumization of our product offerings, we have also devoted efforts to the development of *Zhen Jiu*'s mid-range baijiu products, in order to cater to demands for quality baijiu products at affordable prices. We have also been progressively developing certain mid-range baijiu products under *Li Du* in a strategic manner, in order to gradually broaden *Li Du*'s product matrix to support its scale expansion.

Revenue by Sales Channel

The following table sets forth a breakdown of our revenue in absolute amounts and as percentages of the total revenue by sales channels for the year ended December 31, 2022 and 2023, respectively.

	For the year ended December 31,			
	2023		2022	
	Revenue	% of Total	Revenue	% of Total
	(RMB'000)	(%)	(RMB'000)	(%)
Distributors	6,227,347	88.6	5,199,897	88.8
Direct sales	803,120	11.4	656,020	11.2
Total	7,030,467	100.0	5,855,917	100.0

The Group primarily sells baijiu products through a nationwide network of distributors as well as via direct sales team. The revenue generated from distributors increased by 19.8% from RMB5,199.9 million for the year ended December 31, 2022 to RMB6,227.3 million for the year ended December 31, 2023. Meanwhile, the revenue generated from direct sales increased by 22.4% from RMB656.0 million for the year ended December 31, 2022 to RMB803.1 million for the year ended December 31, 2023.

Cost of Sales

Our cost of sales primarily consisted of (i) cost of production materials, including cost of raw materials, depreciation and amortization and employee compensation for our personnel responsible for baijiu production, (ii) cost of packaging materials used to produce our baijiu products, (iii) tax and surcharges, primarily consumption tax charged in connection with sales of our baijiu products, and (iv) transportation cost, mainly representing logistics expenses for delivery of our baijiu products.

Our cost of sales increased by 12.7% from RMB2,617.0 million for the year ended December 31, 2022 to RMB2,950.5 million for the year ended December 31, 2023. This was primarily due to the expansion of sales scale.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 26.0% from RMB3,238.9 million for the year ended December 31, 2022 to RMB4,079.9 million for the year ended December 31, 2023. Our gross profit margin increased to 58.0% for the year ended December 31, 2023 from 55.3% for the year ended December 31, 2022 primarily due to our continuous efforts in (i) optimizing our product mix through increasing the revenue contribution from our deluxe products and improving the revenue contribution of the products with a higher gross profit margin within the same price range; (ii) gradually replacing the use of third-party base liquor with those of our own as our production capacity expands, since the unit cost of base liquor procured from third-party distilleries is generally higher than that of base liquor in similar quality and type produced by our own production facilities; and (iii) launching product series with a minimalist packaging style in line with our ESG concepts, which significantly reduced packaging costs.

Gross Profit and Gross Profit Margin by Baijiu Brand

The following table sets forth a breakdown of our gross profit in absolute amounts and as percentages of revenue, or gross profit margin, by baijiu brand for the year ended December 31, 2022 and 2023, respectively.

	For the year ended December 31,			
	2023		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(RMB'000)	(%)	(RMB'000)	(%)
<i>Zhen Jiu</i>	2,663,562	58.1	2,097,231	54.9
<i>Li Du</i>	759,017	68.4	575,902	64.9
<i>Xiang Jiao</i>	492,629	59.1	429,849	60.3
<i>Kai Kou Xiao</i>	156,549	40.7	130,510	38.5
Others*	8,191	6.9	5,438	5.7
Total	4,079,948	58.0	3,238,930	55.3

Note: consisting primarily of baijiu products under the brand *Shao Yang*.

- Our gross profit from *Zhen Jiu* increased by 27.0% from RMB2,097.2 million for the year ended December 31, 2022 to RMB2,663.6 million for the year ended December 31, 2023. Our gross profit margin from *Zhen Jiu* increased to 58.1% for the year ended December 31, 2023 from 54.9% for the year ended December 31, 2022 primarily due to (i) the increase in the revenue contribution from our deluxe baijiu products, (ii) the increase in revenue contribution from the products with a higher gross profit margin within the same price range, (iii) the optimization in cost of production materials as a result of the gradual replacement of the use of third-party base liquor with our own as our production capacity expands, and (iv) the significant decrease in packaging costs as *Zhen Jiu's* new package-free series and vintage series adopted a minimalist packaging style in line with our ESG concepts.
- Our gross profit from *Li Du* increased by 31.8% from RMB575.9 million for the year ended December 31, 2022 to RMB759.0 million for the year ended December 31, 2023. Our gross profit margin from *Li Du* increased to 68.4% for the year ended December 31, 2023, from 64.9% for the year ended December 31, 2022, primarily due to the increase in gross profit margins of products in all price ranges.
- Our gross profit from *Xiang Jiao* increased by 14.6% from RMB429.8 million for the year ended December 31, 2022 to RMB492.6 million for the year ended December 31, 2023. Our gross profit margin from *Xiang Jiao* is 59.1% for the year ended December 31, 2023, generally in line with our gross profit margin for the year ended December 31, 2022.
- Our gross profit from *Kai Kou Xiao* increased by 20.0% from RMB130.5 million for the year ended December 31, 2022 to RMB156.5 million for the year ended December 31, 2023. Our gross profit margin from *Kai Kou Xiao* increased to 40.7% for the year ended December 31, 2023 from 38.5% for the year ended December 31, 2022 primarily due to higher average selling price for the year ended December 31, 2023.

Gross Profit and Gross Profit Margin by Price Range

The following table sets forth a breakdown of our gross profit and gross profit margin by price range for the year ended December 31, 2022 and 2023, respectively.

	For the year ended December 31,			
	2023		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(RMB'000)	(%)	(RMB'000)	(%)
Deluxe	1,334,950	69.7	957,793	66.6
Premium	1,768,647	64.2	1,507,770	63.1
Mid-range and below	976,351	41.4	773,367	38.1
Total	<u>4,079,948</u>	<u>58.0</u>	<u>3,238,930</u>	<u>55.3</u>

As we continued to implement our premiumization strategy, we also focused on improving the revenue contribution of the products with a higher gross profit margin within the same price range which resulted in increasing gross profit margin across all price ranges.

Selling and Distribution Expenses

Our selling and distribution expenses consisted of (i) advertisement expenses relating to our advertisements placed across different media channels, such as television and radio, airport and railway stations and online channels, as well as relating to our other online and offline marketing and promotion activities, (ii) employee compensation, representing salaries, welfare and bonuses for our sales and distribution personnel, (iii) travel and office expenses incurred by our sales and distribution personnel, and (iv) others, such as depreciation and amortization allocated to selling and distribution activities.

Our selling and distribution expenses increased by 21.2% from RMB1,342.1 million for the year ended December 31, 2022 to RMB1,626.8 million for the year ended December 31, 2023. This was primarily due to the increased employee compensation associated with the rising sales personnel headcount as a result of a one-off mass recruitment of sales personnel in the second half of 2022 in preparation of our sales expansion and development for the coming years. Despite such a significant increase in sales personnel headcount, the selling and distribution expenses as a percentage of revenue for the year ended December 31, 2023 remained stable as compared to that of 2022, largely due to the improvement in sales contribution per salesperson in 2023.

Administrative Expenses

Our administrative expenses consist of (i) employee compensation, representing salaries, welfare and bonuses for our administrative staff, (ii) office and maintenance expenses, including business development costs, repair and maintenance expenses, utilities charges and other office expenses, (iii) depreciation and amortization allocated to administrative activities, (iv) professional service fees, consisting primarily of costs associated with third-party consulting and professional services in our ordinary course of business, and (v) others.

Our administrative expenses increased by 39.1% from RMB344.4 million for the year ended December 31, 2022 to RMB478.9 million for the year ended December 31, 2023. This was primarily due to (i) the increase in employee compensation primarily attributable to the rising administrative staff headcount and the corresponding increase in miscellaneous expenses; and (ii) the increase in depreciation and amortization expenses for land used for certain office areas, buildings for management purposes, and ancillary equipment in the Zhen Jiu Zhao Jia Gou (趙家溝).

Other Income

Our other income consists of (i) government grants, representing subsidies and benefits received from local governments in China, (ii) interest income on bank deposits and loans to third parties, (iii) net income or loss on foreign exchange, (iv) net income from sales of by-products and semi-finished products, such as lees and packaging materials, which were produced or left over during the course of baijiu production, (v) fees from distributors for breach of contracts, (vi) net gain or loss on disposal of property, plant and equipment, and (vii) others.

Our other income increased by 150.0% from RMB83.2 million for the year ended December 31, 2022 to RMB207.9 million for the year ended December 31, 2023. This was primarily due to the increased interest income generated from the deposit of our unutilized proceeds from the Global Offering.

Finance Costs

Our finance costs consist of (i) interest expenses on lease liabilities related to plant and buildings leased for own use and (ii) interest expenses of bank and other borrowings.

Our finance costs decreased by 85.0% from RMB29.4 million for the year ended December 31, 2022 to RMB4.4 million for the year ended December 31, 2023. This was primarily due to the repayment of a short-term borrowing in the second half of 2022, thereby resulting in a decrease in interest expenses on bank and other borrowings.

Income Tax

Our income tax expenses increased by 37.9% from income tax expenses of RMB405.2 million for the year ended December 31, 2022 to an income tax expense of RMB558.6 million for the year ended December 31, 2023 primarily due to (i) the increase in our profits before taxation generated from our operations and (ii) that the changes in fair value in financial instruments issued to an investor were not subject to tax.

Profit for the Period

Our profit for the period increased by 126.0% from a net profit of RMB1,029.9 million for the year ended December 31, 2022 to a net profit of RMB2,327.1 million for the year ended December 31, 2023.

Non-IFRS Measures

To supplement our consolidated financial statements that are presented in accordance with IFRS Accounting Standards, we also use adjusted net profit (non-IFRS measure) and adjusted net profit margin (non-IFRS measure) as additional financial measures, which are not required by, or presented in accordance with, IFRS Accounting Standards. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted net profit (non-IFRS measure) and adjusted net profit margin (non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS Accounting Standards.

The following table reconciles our adjusted net profit for the periods indicated to the most directly comparable financial measure calculated and presented in accordance with IFRS Accounting Standards.

	For the year ended	
	December 31,	
	2023	2022
	(RMB'000)	(RMB'000)
Profit attributable to equity shareholders of the Company for the year	2,327,083	1,029,866
Add:		
Expenses in connection with the Listing ⁽¹⁾	40,406	36,755
Equity-settled share-based payment expenses ⁽²⁾	70,028	–
Changes in fair value in financial instruments issued to an investor ⁽³⁾	(814,915)	130,668
	1,622,602	1,197,289
Adjusted net profit (non-IFRS measure)	1,622,602	1,197,289
	23.1%	20.4%
Adjusted net profit margin (non-IFRS measure)	23.1%	20.4%

Notes:

- (1) Expenses in connection with the Listing relate to the Global Offering of the Company.
- (2) Equity-settled share-based payment expenses relate to the awards granted on October 25, 2023 pursuant to the Post-IPO Equity Incentive Plan.
- (3) Changes in fair value in financial instruments issued to an investor arise from the changes in the fair value of our Series A Preferred Shares and warrants issued to Zest Holdings II Pte. Ltd. in connection with its pre-IPO investments in the Company. These changes in financial instruments are non-cash in nature. The warrants were terminated in June 2022 and accordingly we no longer recognize any change in the fair value thereof. Upon completion of the Listing, the Series A Preferred Shares have been automatically converted into ordinary shares of the Company, and no profit or loss due to changes in the financial instruments will be recognized. As a result, this adjusted item no longer exists after the Listing.

Our adjusted net profit for the year ended December 31, 2023 increased by 35.5% to RMB1,622.6 million as compared to RMB1,197.3 million for the year ended December 31, 2022. Our adjusted net profit margin for the year ended December 31, 2023 increased to 23.1% from 20.4% for the year ended December 31, 2022.

Liquidity and Capital Resources

During the year ended December 31, 2023, we had funded our cash requirements principally from cash generated from our business operations and net proceeds from the Global Offering. Our net cash generated from operating activities for the Reporting Period was approximately RMB361.2 million, adjusted for certain non-cash and non-operating items. Adjustments for such non-cash and non-operating items primarily include the changes in fair value in financial instruments issued to an investor, depreciation expenses, equity-settled share-based payment expenses and interest income and expenses.

As at December 31, 2023, we had cash at bank and on hand of approximately RMB6,053.2 million (as at December 31, 2022: RMB1,683.4 million). As at December 31, 2023, our borrowings amounted to approximately RMB36.6 million (as at December 31, 2022: RMB36.6 million). These borrowings are unsecured and unguaranteed non-interest bearing loans which are recognized in the consolidated statements of financial position using the effective interest method. All of our borrowings are denominated in RMB.

Gearing Ratio

As at December 31, 2022 and December 31, 2023, gearing ratio (calculated as net debt divided by total capital) was not applicable to our Group due to our net cash surplus position.

Contingent Liabilities

As of December 31, 2023, the Group had no material contingent liabilities.

Material Acquisitions and Disposals and Significant Investments

The Group did not have any material acquisitions and disposals or significant investments during the year ended December 31, 2023.

Future Plan for Material Investments or Capital Assets

As at December 31, 2023, save as disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus and further explained in section headed “Use of Proceeds from the Global Offering” below, the Group had no future plan for material investments or capital assets.

Pledge of Assets

As of December 31, 2023, none of the Group’s assets was subject to any encumbrance, mortgage, lien, charge or pledge.

Capital Expenditure

For the year ended December 31, 2023, our total capital expenditure was approximately RMB961.2 million, compared to approximately RMB1,422.2 million for the year ended December 31, 2022. Our capital expenditure primarily included our purchase of fixed assets and land use rights. We intend to fund our future capital expenditures with financial resources available to us, including our existing cash balance, cash generated from our operation activities, our available banking facilities and net proceeds from the Global Offering.

Foreign Exchange Exposure

During the year ended December 31, 2023, the Group conducted its business in China with the transactions settled in Renminbi. The functional currency of the Group's subsidiaries in the PRC is RMB. As there is a natural hedge mechanism in place during the course of its respective business operation and the impact of the foreign exchange risk is low, the Group currently does not have any financial instruments for hedging purposes. To enhance overall risk management, the Group will continue to keep track of the foreign exchange risk and take prudent measures to mitigate exchange risk, and take appropriate action where necessary.

Employees and Equity Incentive Plan

As of December 31, 2023, we had 11,008 full-time employees (as at June 30, 2023: 11,044 employees).

The staff costs, including salaries, wages and other benefits as well as contributions to defined contribution retirement plans, were approximately RMB1,687.7 million for the year ended December 31, 2023, excluding the equity-settled share-based payment expenses. We continue to offer onboarding trainings for all new hires, covering introduction to our brands, products and corporate values, and the overall production standards, sales policies and code of conduct, and design and offer targeted training programs for employees at various positions.

The Post-IPO Equity Incentive Plan was approved by way of shareholders' resolution on April 11, 2023, with effect from the Listing Date. The purpose of this plan is to incentivize and reward eligible participants for their contribution to the Group and to align their interests with that of the Company, so as to encourage them to work towards enhancing the value of the Company. The principal terms of the Post-IPO Equity Incentive Plan are summarized in the section headed "Statutory and General Information – D. Post-IPO Equity Incentive Plan" in Appendix IV to the Prospectus.

As at December 31, 2023, the Company has granted Awards corresponding to 117,292,500 Shares, which accounted for 3.59% of the total issued shares of the Company, pursuant to the Post-IPO Equity Incentive Plan. Amongst the 718 Grantees, three of them are executive Directors of the Company, namely, Mr. Yan Tao, Ms. Zhu Lin and Mr. Luo Yonghong. Save for these three executive Directors, none of the Awards has been granted to any connected person (as defined in the Listing Rules) of the Company. From the Listing Date to December 31, 2023, none of the Awards granted has been vested. For further details, please refer to the announcement of the Company dated October 25, 2023.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

(Expressed in Renminbi (“RMB”))

	<i>Note</i>	2023 <i>RMB’000</i>	2022 <i>RMB’000</i>
Revenue	3	7,030,467	5,855,917
Cost of sales		<u>(2,950,519)</u>	<u>(2,616,987)</u>
	3(b)	<u>4,079,948</u>	<u>3,238,930</u>
Other income	4	207,927	83,174
Selling and distribution expenses		(1,626,780)	(1,342,057)
Administrative expenses		(478,908)	(344,380)
Equity-settled share-based payment expenses		(70,028)	–
Impairment gain/(loss) on trade receivables		<u>3,428</u>	<u>(3,720)</u>
Profit from operations		2,115,587	1,631,947
Finance costs	5(a)	(4,414)	(29,445)
Expenses in connection with the listing of the Company’s shares		(40,406)	(36,755)
Changes in fair value in financial instruments issued to an investor	6	<u>814,915</u>	<u>(130,668)</u>
Profit before taxation		2,885,682	1,435,079
Income tax	7	<u>(558,599)</u>	<u>(405,213)</u>
Profit attributable to equity shareholders of the Company for the year		<u>2,327,083</u>	<u>1,029,866</u>
Other comprehensive income for the year (after tax)			
Item that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements into presentation currency		<u>278,810</u>	<u>(837,382)</u>
Total comprehensive income attributable to equity shareholders of the Company for the year		<u>2,605,893</u>	<u>192,484</u>
Earnings per share			
Basic (RMB)	8	<u>0.78</u>	<u>0.44</u>
Diluted (RMB)	8	<u>0.49</u>	<u>0.43</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

(Expressed in RMB)

		At 31 December 2023 RMB'000	At 31 December 2022 RMB'000
Non-current assets			
Property, plant and equipment		4,512,715	3,775,286
Deferred tax assets		182,793	37,703
		<u>4,695,508</u>	<u>3,812,989</u>
Current assets			
Inventories	9	6,383,479	5,138,510
Trade and bills receivables	10	243,128	179,782
Prepayments, deposits and other receivables		202,362	130,354
Income tax recoverable		–	113,806
Cash at bank and on hand	11	6,053,224	1,683,448
		<u>12,882,193</u>	<u>7,245,900</u>
Current liabilities			
Trade and bills payables	12	1,070,012	1,045,530
Other payables and accruals	13	3,436,396	3,400,271
Bank and other borrowings		36,600	36,600
Lease liabilities		13,827	28,024
Current taxation		295,978	61,560
		<u>4,852,813</u>	<u>4,571,985</u>
Net current assets		<u>8,029,380</u>	<u>2,673,915</u>
Total assets less current liabilities		<u>12,724,888</u>	<u>6,486,904</u>

	<i>Note</i>	At 31 December 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Non-current liabilities			
Lease liabilities		25,282	37,164
Financial instruments issued to an investor	6	–	10,253,755
Deferred tax liabilities		<u>23,852</u>	<u>11,199</u>
		<u>49,134</u>	<u>10,302,118</u>
NET ASSETS/(LIABILITIES)		<u>12,675,754</u>	<u>(3,815,214)</u>
CAPITAL AND RESERVES			
Share capital		43	30
Reserves		<u>12,675,711</u>	<u>(3,815,244)</u>
TOTAL EQUITY/(TOTAL EQUITY – DEFICIT)		<u>12,675,754</u>	<u>(3,815,214)</u>

NOTES

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

ZJLD Group Inc (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act (as revised) of the Cayman Islands on 24 September 2021. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 27 April 2023. The Company and its subsidiaries (together, the “Group”) are principally engaged in the making, production and sales of baijiu products.

2 MATERIAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all IFRS Accounting Standards as issued by the International Accounting Standards Board (the “IASB”). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Material accounting policies adopted by the Group is set out below.

The IASB has issued certain amendments to IFRS Accounting Standards that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2023 comprise the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except for derivative financial instruments which are stated at their fair values.

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) **Changes in accounts policies**

New and amended IFRS Accounting Standards

The Group has applied the following new and amended IFRS Accounting Standards issued by the IASB to these financial statements for the current accounting period:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 1, *Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The adoption of Amendments to IAS 1 requires entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

Other than the above, none of the other developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the financial statements.

3 REVENUE AND SEGMENT REPORTING

(a) **Revenue**

The Group is principally engaged in the making, production and sales of baijiu products. Further details regarding the Group's principal activities are disclosed in Note 3(b). Revenue disaggregated by major brands of baijiu products is as follows:

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Zhen Jiu	4,583,208	3,822,696
Li Du	1,109,585	886,850
Xiang Jiao	833,629	712,791
Kai Kou Xiao	384,713	338,675
Others	119,332	94,905
	7,030,467	5,855,917

All of the revenue of the Group is generated from sales of baijiu products and is recognised at a point in time during the year.

The Group's customer base is diversified and there is no single customer (2022: Nil) with whom transactions have exceeded 10% of the Group's revenue in 2023.

The Group has applied the practical expedient in paragraph 121 of IFRS 15 such that the Group does not disclose the amount of the transaction price allocated to the remaining performance obligations when the performance obligation is part of a contract that had an original expected duration of one year or less.

(b) Segment reporting

The Group manages its businesses by brands of baijiu products. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following five reportable segments.

- Zhen Jiu: this segment engages in the making, production and sales of baijiu products under the brand "Zhen Jiu".
- Li Du: this segment engages in the making, production and sales of baijiu products under the brand "Li Du".
- Xiang Jiao: this segment engages in the making, production and sales of baijiu products under the brand "Xiang Jiao".
- Kai Kou Xiao: this segment engages in the making, production and sales of baijiu products under the brand "Kai Kou Xiao".
- Others: this segment engages in the making, production and sales of baijiu products under the brand "Shao Yang" and other brands.

(i) Segment results

For the purposes of assessing segment performance and allocating resources, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and direct expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred during the year. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The Group's other operating income and expenses, such as other income, selling and distribution expenses, administrative expenses, impairment gain/loss on trade receivables, finance costs, changes in fair value in financial instruments issued to an investor, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance during the year is set out below.

	2023					Total RMB'000
	Zhen Jiu	Li Du	Xiang Jiao	Kai Kou Xiao	Others	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Revenue from external customers	<u>4,583,208</u>	<u>1,109,585</u>	<u>833,629</u>	<u>384,713</u>	<u>119,332</u>	<u>7,030,467</u>
Reportable segment gross profit	<u>2,663,562</u>	<u>759,017</u>	<u>492,629</u>	<u>156,549</u>	<u>8,191</u>	<u>4,079,948</u>
	2022					Total RMB'000
	Zhen Jiu	Li Du	Xiang Jiao	Kai Kou Xiao	Others	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Revenue from external customers	<u>3,822,696</u>	<u>886,850</u>	<u>712,791</u>	<u>338,675</u>	<u>94,905</u>	<u>5,855,917</u>
Reportable segment gross profit	<u>2,097,231</u>	<u>575,902</u>	<u>429,849</u>	<u>130,510</u>	<u>5,438</u>	<u>3,238,930</u>

(ii) Reconciliation of reportable segment profit or loss

	2023 RMB'000	2022 RMB'000
Total reportable segment gross profit	4,079,948	3,238,930
Other income	207,927	83,174
Selling and distribution expenses	(1,626,780)	(1,342,057)
Administrative expenses	(478,908)	(344,380)
Equity-settled share-based payment expenses	(70,028)	–
Impairment gain/(loss) on trade receivables	3,428	(3,720)
Finance costs	(4,414)	(29,445)
Expenses in connection with the listing of the Company's shares	(40,406)	(36,755)
Changes in fair value in financial instruments issued to an investor	814,915	(130,668)
Consolidated profit before taxation	<u>2,885,682</u>	<u>1,435,079</u>

(iii) Geographic information

The Group generated all of its revenue in the Chinese Mainland and its non-current assets are substantially located in the Chinese Mainland, and accordingly, no analysis of geographic information is presented.

4 OTHER INCOME

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest income	159,496	30,767
Government grants	24,366	20,440
Net income from sales of raw materials, by-products and sub-standard work in progress and maturing inventories	24,271	21,020
Fees received from distributors for non-compliance with distribution agreements	4,124	8,990
Net foreign exchange loss	(9,503)	(1,505)
Net gain/(loss) on disposal of property, plant and equipment	198	(909)
Others	4,975	4,371
	<u>207,927</u>	<u>83,174</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest expenses on bank and other borrowings	1,800	26,135
Interest expenses on lease liabilities	2,614	3,310
	<u>4,414</u>	<u>29,445</u>

(b) Staff costs

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Salaries, wages and other benefits	1,538,398	1,102,323
Contributions to defined contribution retirement plans <i>(Notes (i), (ii) and (iii))</i>	149,318	119,989
Equity-settled share-based payment expenses	70,028	—
	<u>1,757,744</u>	<u>1,222,312</u>

Notes:

- (i) The employees of the subsidiaries of the Group established in the Chinese Mainland participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby these subsidiaries are required to contribute to the schemes at rates range from 16% to 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to receive retirement benefits, calculated based on a percentage of the average salaries level in the Chinese Mainland, from the above mentioned retirement schemes at their normal retirement age.
- (ii) The Group's employees in Hong Kong participate in a defined contribution scheme registered under the Mandatory Provident Fund Scheme Ordinance (Cap. 485) (the "MPF Scheme"). The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong dollars ("HKD") 30,000. Contributions to the plan vest immediately.
- (iii) The Group has no further obligation for payment of other retirement benefits beyond the above contributions in (i) and (ii).

(c) **Other items**

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Depreciation expenses[#]		
– property, plant and equipment	210,217	118,855
– right-of-use assets	<u>49,309</u>	<u>38,214</u>
	<u>259,526</u>	<u>157,069</u>
Auditors' remuneration:		
– audit services	5,000	–
– professional services in connection with the listing of the Company's shares	<u>5,066</u>	<u>10,914</u>
	<u>10,066</u>	<u>10,914</u>
Cost of inventories [#]	<u>1,786,586</u>	<u>1,703,502</u>

[#] Cost of inventories includes RMB213,294,000 (2022: RMB194,962,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 5(b) for each of these types of expenses.

6 FINANCIAL INSTRUMENTS ISSUED TO AN INVESTOR

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Measured at fair value		
– Series A Preference Shares	<u>–</u>	<u>10,253,755</u>

In 2021 and 2022, the Company entered into various agreements with Zest Holdings II Pte. Ltd. (the “Series A Preferred Shareholder”). Pursuant to these agreements, the Series A Preferred Shareholder agreed to purchase an aggregate of 9,015,430 preference shares (subsequently sub-divided into 450,771,500 preference shares on 11 April 2023) at a total consideration of USD800,000,000 (equivalent to approximately RMB5,253,950,000).

Pursuant to these agreements, the Group is required to fully or partially redeem the preference shares upon the request from the Series A Preferred Shareholder or required to distribute 30% of the distributable profits upon the occurrence of certain triggering events as stipulated in these agreements. These terms and conditions are beyond the Company's control, and accordingly, the Group has recognised financial liabilities at amounts equivalent to the maximum exposure the Group can be required to settle arising from these obligations.

In addition, the Series A Preferred Shareholder can convert the preference shares into an equal number of ordinary shares in the Company at anytime during the life of the preference shares. This conversion option is embedded in the preference shares, and are recognised and remeasured at fair value, and presented as part of the carrying amounts of the preference shares. Upon the listing of the Company's shares on 27 April 2023, the Series A Preferred Shareholder converted all of the preference shares into the Company's ordinary shares.

The movements of the financial liabilities arising from the preference shares are set out below:

	2023 RMB'000	2022 <i>RMB'000</i>
At 1 January	10,253,755	8,327,504
Issuance of the Series A Preference Shares	–	3,334,550
Remeasurement to fair value through equity upon issuance	–	(2,334,185)
Changes in fair value through profit or loss	(814,915)	107,396
Conversion into ordinary shares of the Company upon listing	(9,298,709)	–
Exchange adjustments	(140,131)	818,490
	<u>–</u>	<u>10,253,755</u>
At 31 December	<u>–</u>	<u>10,253,755</u>

Pursuant to these agreements, the Series A Preferred Shareholder was also granted warrants, which entitled the Series A Preferred Shareholder to purchase additional preference shares of the Company at pre-determined enterprise value of the Company. The warrants were classified as derivative financial instruments and were initially recognised at fair value, and subsequently remeasured at fair value through profit or loss. The warrants had been terminated upon the issuance of the Series A Preference Shares according to these agreements.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) **Taxation in the consolidated statement of profit or loss represents:**

	2023 RMB'000	2022 <i>RMB'000</i>
Current taxation		
Provision for the year	691,036	441,604
Deferred taxation		
Origination and reversal of temporary differences	(144,855)	(36,391)
Withholding tax (<i>Note 7(b)(iv)</i>)	12,418	–
	(132,437)	(36,391)
	558,599	405,213
	<u>558,599</u>	<u>405,213</u>

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Profit before taxation	<u>2,885,682</u>	<u>1,435,079</u>
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned <i>(Notes (i), (ii) and (iii))</i>	515,567	394,103
Tax effect of non-deductible expenses	30,614	11,110
Withholding tax <i>(Note (iv))</i>	<u>12,418</u>	<u>–</u>
Income tax	<u>558,599</u>	<u>405,213</u>

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision for Hong Kong Profits Tax has been made, as the Company and the subsidiary of the Group incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong Profits Tax during the year (2022: RMBNil).
- (iii) The subsidiary of the Group established in the Chinese Mainland is subject to the People’s Republic of China Corporate Income Tax rate at 25% during the year (2022: 25%).
- (iv) Interest income arising from intra-group loans granted by the Group’s subsidiaries outside of the Chinese Mainland to the Group’s subsidiaries in the Chinese Mainland is subject to PRC Withholding Tax rate of 7%.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the year ended 31 December 2023 is calculated based on the profit attributable to ordinary equity shareholders of the Company of RMB2,327,083,000 and the weighted average of 2,972,124,000 ordinary shares in issue, comprising:

- (i) 2,329,859,750 ordinary shares, taken into account the share subdivision of 46,597,195 ordinary shares in issue on 11 April 2023, as if the total of 2,329,859,750 ordinary shares were outstanding throughout the year ended 31 December 2023;
- (ii) 490,699,800 ordinary shares issued on 27 April 2023 by initial public offering; and
- (iii) 450,771,500 preference shares, which were re-designated to ordinary shares on a one-for-one basis upon the completion of the initial public offering of the Company on 27 April 2023.

The basic earnings per share for the year ended 31 December 2022 is calculated based on the profit attributable to equity shareholders of the Company of RMB1,029,866,000 and the weighted average of 2,329,859,750 ordinary shares, taken into account the share subdivision of 46,597,195 ordinary shares in issue on 11 April 2023, as if the total of 2,329,859,750 ordinary shares were outstanding throughout the year ended 31 December 2022.

The calculation of the weighted average number of ordinary shares is as follows:

	2023 '000	2022 '000
Issued ordinary shares at 1 January	46,597	46,597
Effect of share subdivision	2,283,263	2,283,263
Effect of shares issued by initial public offering	334,751	–
Effect of re-designation of preference shares	307,513	–
	<hr/>	<hr/>
Weighted average number of ordinary shares at 31 December	2,972,124	2,329,860
	<hr/> <hr/>	<hr/> <hr/>

(b) Diluted earnings per share

The diluted earnings per share for the year ended 31 December 2023 is calculated based on the profit attributable to ordinary equity shareholders of the Company of RMB1,512,168,000 and the weighted average of 3,115,383,000 ordinary shares (dilutive).

The diluted earnings per share for the year ended 31 December 2022 is calculated based on the profit attributable to ordinary equity shareholders of the Company of RMB1,137,262,000 and the weighted average of 2,673,761,000 ordinary shares (dilutive).

The calculations of the profit attributable to ordinary equity shareholders of the Company (dilutive) and weighted average number of ordinary shares (diluted) are as follows:

	2023 RMB'000	2022 RMB'000
Profit attributable to equity shareholders of the Company	2,327,083	1,029,866
Changes in fair value in financial instruments issued to an investor	(814,915)	107,396
	<hr/>	<hr/>
Profit attributable to equity shareholders of the Company (dilutive)	1,512,168	1,137,262
	<hr/> <hr/>	<hr/> <hr/>
	2023 '000	2022 '000
Weighted average number of ordinary shares at 31 December	2,972,124	2,329,860
Effect of dilutive preference shares (adjusted for share subdivision took place on 11 April 2023)	143,259	343,901
	<hr/>	<hr/>
Weighted average number of ordinary shares (diluted) at 31 December	3,115,383	2,673,761
	<hr/> <hr/>	<hr/> <hr/>

9 INVENTORIES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Raw materials and packaging materials	350,434	291,803
Work in progress and maturing inventories	5,146,554	3,793,366
Finished goods	886,491	1,053,341
	<u>6,383,479</u>	<u>5,138,510</u>

The analysis of the amount of inventories recognised in profit or loss is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Carrying amounts of inventories sold	<u>1,786,586</u>	<u>1,703,502</u>

10 TRADE AND BILLS RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	90,724	127,552
Less: loss allowance	<u>(5,538)</u>	<u>(8,966)</u>
	85,186	118,586
Bills receivables	<u>157,942</u>	<u>61,196</u>
	<u>243,128</u>	<u>179,782</u>

All of the trade and bills receivables are expected to be recovered within one year.

(a) Ageing analysis

The ageing analysis of trade receivables, based on the invoice date and net of loss allowance, of the Group are as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Less than 3 months	64,078	97,530
More than 3 months but less than 6 months	10,582	10,219
More than 6 months but less than 12 months	<u>10,526</u>	<u>10,837</u>
	<u>85,186</u>	<u>118,586</u>

The balance of bills receivables represents bank acceptance notes received from customers with maturity dates of less than six months at the end of the reporting period.

The Group derecognised certain bank acceptance notes, which are issued by banks of high credit standings, in their entirety upon discounting at banks. The directors of the Company are of the opinion that the Group has substantially transferred all the risks and rewards of these notes and non-settlement of these notes by their issuing banks is highly unlikely. At 31 December 2023, the Group's maximum exposure of these discounted bank acceptance notes are RMB188,740,000 (2022: RMBNil).

11 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Cash at bank and on hand	940,581	1,683,382
Time deposits	4,829,936	–
Restricted bank deposits (<i>Note (i)</i>)	<u>282,707</u>	<u>66</u>
Cash at bank and on hand in the consolidated statement of financial position	6,053,224	1,683,448
Less: restricted bank deposits	<u>(282,707)</u>	<u>(66)</u>
Cash and cash equivalents in the consolidated cash flow statement	<u><u>5,770,517</u></u>	<u><u>1,683,382</u></u>

Notes:

- (i) The balance is pledged for bills issued by the Group.
- (ii) The Group's operation in the Chinese Mainland conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the Chinese Mainland is subject to the exchange restrictions imposed by the PRC government.

12 TRADE AND BILLS PAYABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade payables	569,697	1,045,530
Bills payables	<u>500,315</u>	<u>–</u>
	<u><u>1,070,012</u></u>	<u><u>1,045,530</u></u>

Ageing analysis

The ageing analysis of trade and bills payables, based on the invoice date, is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 1 year	1,066,712	1,039,299
1 to 2 years	3,098	6,142
2 to 3 years	202	89
	<u>1,070,012</u>	<u>1,045,530</u>

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

13 OTHER PAYABLES AND ACCRUALS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Payables for construction and purchases of property, plant and equipment	380,881	348,833
Payables for staff related costs	293,546	172,307
Other taxes payables	47,157	119,131
Payables for costs incurred in connection with the listing of the Company's shares	–	15,368
Distributions/dividends payables	136,138	144,766
Accruals for advertisement expenses	88,832	62,594
Others	12,937	32,529
	<u>959,491</u>	<u>895,528</u>
Financial liabilities measured at amortised cost		
	<u>959,491</u>	<u>895,528</u>
Receipts in advance from customers	1,853,559	1,791,271
Accruals for sales rebates	623,346	713,472
	<u>2,476,905</u>	<u>2,504,743</u>
	<u>3,436,396</u>	<u>3,400,271</u>

All of the other payables and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

14 DIVIDENDS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Final dividend proposed after the end of the reporting period of HKD0.18 per ordinary share (2022: HKDNil)	<u>552,751</u>	<u>–</u>

The final dividend proposed after the end of the reporting period has not been recognised as a liability or transferred from reserve at the end of the reporting period.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares were listed on the Stock Exchange on April 27, 2023. The net proceeds received from the Global Offering (after deduction of the underwriting fees and commissions and other estimated related expenses payable by us in connection with the Global Offering) was approximately HK\$4,990.0 million.

As at December 31, 2023, the net proceeds utilized was approximately HK\$1,404.4 million and the remaining net proceeds was approximately HK\$3,585.6 million. The Company intends to continue to utilize the remaining net proceeds in the future for the purposes as set out in the Prospectus. The table below sets out the planned usage of the net proceeds from the Global Offering and actual usage up to December 31, 2023:

Use of proceeds	Allocation (%)	Net proceeds from the Global Offering (HK\$ in million)	Utilized amount from the Listing Date to December 31, 2023 (HK\$ in million)	Unutilized amount as at December 31, 2023 (HK\$ in million)	Expected timeline for fully utilizing the unutilized amount ⁽¹⁾
Construction and development of production facilities	55	2,744.5	864.9	1,879.7	By December 31, 2027
Brand building and market promotion	20	998.0	418.4	579.6	By December 31, 2027
Expansion of sales channels	10	499.0	109.8	389.2	By December 31, 2027
Business automation and digitalization transformation	5	249.5	11.4	238.1	By December 31, 2027
Working capital and general corporate purposes	10	499.0	–	499.0	By December 31, 2027
Total	100%	4,990.0	1,404.4	3,585.6	

Notes:

- (1) The expected timeline for utilization of the unutilized proceeds disclosed above is based on the best estimation from the Board in accordance with latest information as at the date of this announcement.
- (2) Any discrepancies in this table between the total and sums of amounts are due to rounding.

OTHER INFORMATION

Final Dividend

The Board has resolved to recommend the payment of a final dividend of HK18 cents per Share, amounting to HK\$609,952,239, for the year ended December 31, 2023. Subject to Shareholders' approval at the AGM, the proposed final dividend will be payable on or around Friday, July 19, 2024 to the shareholders whose names appear on the register of members of the Company on Thursday, July 4, 2024. The final dividend will be payable in cash to each Shareholder in HK dollars.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to December 31, 2023.

Compliance with the Corporate Governance Code

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code and the Company has adopted the code provisions of the CG Code as its own code of corporate governance.

The Board is of the view that the Company has complied with all code provisions as set out in the CG Code from the Listing Date to December 31, 2023.

The Board will periodically review and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the CG Code.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct regarding the transactions of securities of the Company by its Directors and the relevant employees who would likely possess inside information of the Company. Specific enquiry has been made to all Directors and all of them have confirmed that they have complied with the Model Code from the Listing Date to December 31, 2023.

Events after the Reporting Period

No important event affecting the Group has occurred since the end of the Reporting Period and up to the date of this announcement.

Annual General Meeting

The AGM will be held on Friday, June 21, 2024. The notice of AGM will be published and issued to the Shareholders on Tuesday, April 23, 2024.

Closure of Register of Members

The register of members of the Company will be closed from as follows:

- (a) For the purpose of determining the Shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Monday, June 17, 2024 to Friday, June 21, 2024, both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Friday, June 14, 2024. Shareholders whose names appear on the register of members of the Company on Friday, June 21, 2024 will be entitled to attend and vote at the AGM; and
- (b) For determining the entitlement to the proposed final dividend for the year ended December 31, 2023 subject to the approval by the Shareholders at the AGM, the register of members of the Company will be closed from Friday, June 28, 2024 to Thursday, July 4, 2024, both days inclusive. In order to qualify for the proposed final dividend, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, June 27, 2024.

Review of Annual Financial Information

The Board has established the Audit Committee, which consists of two independent non-executive Directors, namely Mr. LI Dong (chairperson of the Audit Committee) and Ms. YAN Jisheng, and one non-executive Director, namely Mr. SUN Zheng. The Audit Committee has reviewed the audited financial results of the Group for the year ended December 31, 2023, and have discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2023 as set out in this announcement have been compared by the Company's auditor, KPMG, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by KPMG on this announcement.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.zjld.com). The annual report for the year ended December 31, 2023 will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“AGM”	annual general meeting of the Company
“Award(s)”	any award granted by the Board (or a committee of the Board) to a selected group of eligible participants pursuant to the Post-IPO Equity Incentive Plan
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix C1 to the Listing Rules
“Company”	ZJLD Group Inc 珍酒李渡集團有限公司, an exempted company with limited liability incorporated under the laws of the Cayman Islands on September 24, 2021
“Director(s)”	the director(s) of the Company
“ESG”	environmental, social and governance
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an independent third party of the Company
“Global Offering”	has the meaning ascribed to it in the Prospectus
“Grantee(s)”	the eligible participant(s) of the Post-IPO Equity Incentive Plan who were granted the Awards in accordance with the Post-IPO Equity Incentive Plan on October 25, 2023
“Group”, “ZJLD Group”, “we”, “us”, or “our”	the Company and its subsidiaries from time to time
“HKD”, “HK\$” or “HK dollar”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“ <i>Kai Kou Xiao</i> ”	<i>Kai Kou Xiao</i> (開口笑), one of the baijiu brands operated by the Group
“Listing”	the listing of Shares on the Main Board of the Stock Exchange on April 27, 2023
“ <i>Li Du</i> ”	<i>Li Du</i> (李渡), one of the baijiu brands operated by the Group
“Listing Date”	April 27, 2023, being the date on which the Shares were listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 to the Listing Rules
“Post-IPO Equity Incentive Plan”	the equity incentive plan adopted by the Company on April 11, 2023, the principal terms of which are set out in the section headed “Statutory and General Information — D. Post-IPO Equity Incentive Plan” in Appendix IV of the Prospectus
“PRC” or “China”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Prospectus”	the prospectus issued by the Company on April 17, 2023 in connection with the Hong Kong public offering of the Shares
“Reporting Period”	the year from January 1, 2023 to December 31, 2023
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Series A Preferred Shares”	series A preferred shares of US\$0.0001 each in the share capital of the Company prior to the share subdivision approved by the Shareholders on April 11, 2023
“Share(s)”	ordinary share(s) in the capital of the Company with nominal value of US\$0.000002 each
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollar(s), the lawful currency of the United States of America
“ <i>Xiang Jiao</i> ”	<i>Xiang Jiao</i> (湘窖), one of the baijiu brands operated by the Group
“ <i>Zhen Jiu</i> ”	<i>Zhen Jiu</i> (珍酒), one of the baijiu brands operated by the Group

“Zhen 15 Series” include multiple versions catering to the consumers preference with the standard version Zhen 15 (珍十五) as the core offering

“Zhen 30 Series” include multiple versions catering to the consumers preference with the standard version Zhen 30 (珍三十) as the core offering

“%” per cent.

By Order of the Board
ZJLD Group Inc
Mr. WU Xiangdong
Chairman of the Board and Executive Director

Hong Kong, March 25, 2024

As at the date of this announcement, the Board comprises Mr. Wu Xiangdong, Mr. Yan Tao, Ms. Zhu Lin, Mr. Luo Yonghong and Mr. Ng Kwong Chue Paul, as executive Directors; Mr. Sun Zheng as non-executive Director; and Mr. Yung Tse Kwong Steven, Mr. Li Dong and Ms. Yan Jisheng, as independent non-executive Directors.