珍酒李渡集團有限公司

ZJLD Group Inc

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 6979

Global Offering

Joint Sponsors

Goldman Sachs 高盛

中信建投國際 CHINA SECURITIES INTERNATIONAL

Overall Coordinators, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Goldman Sachs 高盛

中信建投國際 CHINA SECURITIES INTERNATIONAL

CICC 中金公司

Joint Bookrunner and Joint Lead Manager

KKR

IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.

ZJLD Group Inc
珍酒李渡集團有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	**:**	**490,699,800 Shares (subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**49,070,000 Shares (subject to reallocation)**
Number of International Offer Shares	**:**	**441,629,800 Shares (subject to reallocation and the Over-allotment Option)**
Maximum Offer Price	**:**	**HK$12.98 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	**:**	**US$0.000002 per Share**
Stock code	**:**	**6979**

Joint Sponsors

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix V — Documents Delivered to the Registrar of Companies and Available on Display", has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered, sold, pledged, or transferred within the United States, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside of the United States in offshore transactions in accordance with Regulation S.

Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK$12.98 for each Hong Kong Offer Share together with a brokerage fee of 1%, a SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%.

The Offer Price is expected to be fixed by agreement between the Overall Coordinators (for themselves and on behalf of the Underwriters) and us on or around Thursday, April 20, 2023 and, in any event, not later than Wednesday, April 26, 2023. The Offer Price will be not more than HK$12.98 per Offer Share and is currently expected to be not less than HK$10.78 per Offer Share, unless otherwise announced. If, for any reason, the Offer Price is not agreed by Wednesday, April 26, 2023 (Hong Kong time) between the Overall Coordinators (for themselves and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors, see "Risk Factors."

The Overall Coordinators (for themselves and on behalf of the Underwriters), with our consent, may reduce the number of Offer Shares being offered under the Global Offering and/or the Offer Price stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.zjld.com not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Details of the arrangement will then be announced by us as soon as practicable. For further information, see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Sponsors and the Overall Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination."

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and our website at **www.zjld.com**. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

April 17, 2023

IMPORTANT NOTICE TO INVESTORS:
FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the "*HKEXnews > New Listings > New Listing Information*", and our website at www.zjld.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

To apply for the Hong Kong Offer Shares, you may:

(1) apply online via the HK eIPO White Form service in the IPO App (which can be downloaded by searching "IPO App" in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp) or at www.hkeipo.hk; or;

(2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

   i. instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or

   ii. (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an **intermediary**, **broker** or **agent**, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

Please refer to the section headed "How to Apply for Hong Kong Offer Shares" for further details of the procedures through which you can apply for the Hong Kong Offer Shares electronically.

Your application must be for a minimum of 200 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Share applied for	Amount payable on application	No. of Hong Kong Offer Share applied for	Amount payable on application	No. of Hong Kong Offer Share applied for	Amount payable on application	No. of Hong Kong Offer Share applied for	Amount payable on application
	HK$		*HK$*		*HK$*		*HK$*
200	2,622.18	6,000	78,665.42	100,000	1,311,090.34	3,000,000	39,332,709.90
400	5,244.36	7,000	91,776.32	200,000	2,622,180.65	3,500,000	45,888,161.56
600	7,866.54	8,000	104,887.23	300,000	3,933,270.99	4,500,000	58,999,064.86
800	10,488.73	9,000	117,998.13	400,000	5,244,361.32	5,000,000	65,554,516.50
1,000	13,110.90	10,000	131,109.02	500,000	6,555,451.66	6,000,000	78,665,419.80
1,200	15,733.08	20,000	262,218.07	600,000	7,866,541.98	7,000,000	91,776,323.10
1,400	18,355.27	30,000	393,327.09	700,000	9,177,632.31	8,000,000	104,887,226.40
1,600	20,977.44	40,000	524,436.13	800,000	10,488,722.65	9,000,000	117,998,129.70
1,800	23,599.63	50,000	655,545.16	900,000	11,799,812.96	10,000,000	131,109,033.00
2,000	26,221.81	60,000	786,654.20	1,000,000	13,110,903.30	15,000,000	196,663,549.50
3,000	39,332.71	70,000	917,763.23	1,500,000	19,666,354.96	20,000,000	262,218,066.00
4,000	52,443.61	80,000	1,048,872.27	2,000,000	26,221,806.60	24,535,000[1]	321,676,012.47
5,000	65,554.52	90,000	1,179,981.29	2,500,000	32,777,258.26		

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

If there is any change in the following expected timetable, we will issue an announcement to be published on the websites of the Company at www.zjld.com and the Hong Kong Stock Exchange at www.hkexnews.hk.

	Date[1]
Hong Kong Public Offering commences	9:00 a.m. on Monday, April 17, 2023
Latest time for completing electronic applications under **HK eIPO White Form** service through one of the below ways:[2]	
(1) the **IPO App**, which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**	
(2) the designated website **www.hkeipo.hk**	11:30 a.m. on Thursday, April 20, 2023
Application lists open[3]	11:45 a.m. on Thursday, April 20, 2023
Latest time for (a) completing payment for **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) and (b) giving **electronic application instructions** to HKSCC[4]	12:00 noon on Thursday, April 20, 2023
If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.	
Application lists close[3]	12:00 noon on Thursday, April 20, 2023
Expected Price Determination Date[5]	Thursday, April 20, 2023
Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on our website at **www.zjld.com**[6] and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** on or before[10]	Wednesday, April 26, 2023

The results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including:	
• in the announcement to be posted on our website and the website of the Hong Kong Stock Exchange at **www.zjld.com**[(6)] and **www.hkexnews.hk**, respectively from[(10)]	Wednesday, April 26, 2023
• from the "IPO Results" function in the **IPO App** or designated results of allocations website at **www.tricor.com.hk/ipo/result** or **www.hkeipo.hk/IPOResult** with a "search by ID" function from[(10)]	8:00 a.m. on Wednesday, April 26, 2023 to 12:00 midnight on Tuesday, May 2, 2023
• from the allocation results telephone enquiry by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from[(10)]	Wednesday, April 26, 2023, Thursday, April 27, 2023, Friday, April 28, 2023, Tuesday, May 2, 2023
Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before[(7)(9)(10)]	Wednesday, April 26, 2023
HK eIPO White Form e-Auto Refund payment instructions/refund checks in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications to be dispatched on or before[(8)(9)(10)]	Wednesday, April 26, 2023
Dealings in the Shares on the Hong Kong Stock Exchange expected to commence[(10)]	at 9:00 a.m. on Thursday, April 27, 2023

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated.

(2) You will not be permitted to submit your application through the **IPO App** or the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the **IPO App** or the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, April 20, 2023, the application lists will not open or close on that day. See "How to Apply for Hong Kong Offer Shares — C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" in this prospectus.

(4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS or instructing your **broker** or **custodian** to apply on your behalf via CCASS should refer to the section headed "How to Apply for Hong Kong Offer Shares — A. Applications for Hong Kong Offer Shares — 6. Applying Through **CCASS EIPO** Service" in this prospectus.

(5) The Price Determination Date is expected to be on or around Thursday, April 20, 2023 and, in any event, not later than Wednesday, April 26, 2023. If, for any reason, we do not agree with the Overall Coordinators (on behalf of the Underwriters) on the pricing of the Offer Shares by Wednesday, April 26, 2023, the Global Offering will not proceed and will lapse.

(6) None of the websites set out in this section or any of the information contained on the websites forms part of this prospectus.

(7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus has not been exercised. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.

(8) e-Auto Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Public Offer Price is less than the price payable per Offer Share on application. Part of the applicant's identification document number, or, if the application is made by joint applicants, part of the identification document number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's identification document number before encashment of the refund check. Inaccurate completion of an applicant's identification document number may invalidate or delay encashment of the refund check.

(9) Applicants who have applied on **HK eIPO White Form** for 1,000,000 or more Hong Kong Offer Shares may collect any refund checks (where applicable) and/or Share certificates in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, April 26, 2023 or such other date as notified by us as the date of dispatch/collection of Share certificates/e-Auto Refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce evidence of identity acceptable to our Hong Kong Branch Share Registrar at the time of collection.

Applicants who have applied for Hong Kong Offer Shares through **CCASS EIPO** service should refer to the section headed "How to Apply for Hong Kong Offer Shares — G. Dispatch/Collection of Share Certificates/e-Auto Refund Payment Instructions/Refund Checks — Personal Collection — If you apply through **CCASS EIPO** service" in this prospectus for details.

Applicants who have applied through the **HK eIPO White Form** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Auto Refund payment instructions. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks in favor of the applicant (or, in the case of joint applicants, the first-named applicant) by ordinary post at their own risk.

Share certificates and/or refund checks for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed "How to Apply for Hong Kong Offer Shares — F. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares — G. Dispatch/Collection of Share Certificates/e-Auto Refund Payment Instructions/Refund Checks" in this prospectus.

(10) In case a typhoon warning signal no. 8 or above, a black rainstorm warning signal and/or Extreme Conditions is/are in force in any days between Monday, April 17, 2023 to Thursday, April 27, 2023, then the day of (i) announcement of results of allocations in the Hong Kong Public Offering; (ii) dispatch of Share certificates and refund checks/**HK eIPO White Form** e-Auto Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

The above expected timetable is a summary only. For further details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, please refer to the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus, respectively.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, we will make an announcement as soon as practicable thereafter.

IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Hong Kong Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus for purposes of a public offering and the offering and sale of the Hong Kong Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained nor made in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Capital Market Intermediaries, any of the Underwriters, any of our or their respective directors, officers, employees, agents, or representatives of any of them or any other parties involved in the Global Offering.

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This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the entire document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

Who We Are

We are a baijiu company in China devoted to offering premium baijiu products featuring sauce aroma profile. According to Frost & Sullivan, we ranked 14th among all baijiu companies in China with a market share of 0.8%, in terms of revenue in 2021. We have grown significantly faster than the industry average during the Track Record Period. Our growth capitalized on the increasing popularity of sauce aroma baijiu across China and consumer preferences towards premiumization, and we are expected to continue to benefit from these market trends. We operate four major baijiu brands in China, including our flagship brand *Zhen Jiu* (珍酒), a thriving brand *Li Du* (李渡), as well as two regional leading brands *Xiang Jiao* (湘窖) and *Kai Kou Xiao* (開口笑). Leveraging these renowned brands, we promote traditional Chinese baijiu culture by developing a broad selection of fragrant, mellow baijiu products to appeal to different consumer preferences and capture broader market opportunities.

We aspire to carry forward rich culture heritage and turn every drop of aromatic baijiu into a joyful and memorable moment. Since our inception, we have been striving to make the best-quality products and bring cheerfulness to baijiu consumer community. We are committed to the traditional time-honored baijiu-making techniques and reinvigorating them by taking advantage of modern technologies to develop iconic recipes and tastes. We selectively locate all of our 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.

Our Market Opportunities

Baijiu is China's national liquor and the world's most consumed liquor. Baijiu accounted for 69.5% of the alcoholic beverage market in China in terms of revenue in 2021, exceeding wine's 49.9% market share in French alcoholic beverage market and beer's 50.5% market share in the U.S. alcoholic beverage market in the same period, according to Frost & Sullivan. The market size of baijiu industry in China is expected to grow from RMB621.1 billion in 2022 to RMB769.5 billion in 2026, at a CAGR of 5.5% driven primarily by the premiumization trend and high growth potential of sauce aroma baijiu.

Baijiu products in China are classified into four price hierarchies, i.e., deluxe, premium, mid-range and low-end. Leveraging our insight into the premiumization trend as well as our rich heritage and strong brand recognition, we primarily target our products at the premium and above baijiu market. As a percentage of our total revenue, revenue generated from our premium and above baijiu products increased from 51.8% in 2020 to 65.4% in 2022. We have built our flagship brand *Zhen Jiu*, our thriving brand *Li Du* and regional leading brand *Xiang Jiao* into brands focusing on producing and marketing premium and above baijiu products. In 2022, *Zhen Jiu*, *Li Du* and *Xiang Jiao* generated 68.4%, 76.7% and 74.7% of their respective total revenue from premium and above baijiu products. According to Frost & Sullivan, based on its consumer survey, consumers generally consider our *Zhen Jiu*, *Li Du* and *Xiang Jiao* brands as brands focusing on premium and above baijiu products. We have also strategically focused on the marketing of our premium and above baijiu products to boost consumer awareness of our premium brand positioning. For example, we have established a sales team with approximately 1,100 team members as of the Latest Practicable Date, dedicated to the sales and marketing of premium and above baijiu products. The market size of premium and above baijiu in China is expected to grow at the fastest rate among all price ranges, at a CAGR of 12.3% from 2022 to 2026, from RMB234.1 billion in 2022 to RMB371.9 billion in 2026, according to Frost & Sullivan. The market share of premium and above baijiu in China's baijiu market is expected to grow from 37.7% in 2022 to 48.3% in 2026. To better adapt to the premiumization trend in baijiu market, we are further expanding our premium and above product portfolio, increasing our baijiu production capacity for premium and above baijiu and growing our multi-channel sales network characteristic with immersive promotion strategy. We expect that revenue contribution from our premium and above baijiu products will continue to grow in absolute amount and as a percentage of our total revenue.

With sauce aroma baijiu being our major growth engine, we produce and sell sauce aroma, mixed aroma and strong aroma baijiu. According to Frost & Sullivan, in 2021, the market size of these three baijiu aroma profiles was approximately RMB506.9 billion, accounting for nearly 85% of the total market size, with the sauce aroma profile having the highest growth potential. As a percentage of our total revenue, revenue generated from our sauce aroma baijiu products increased from 59.6% in 2020 to 71.4% in 2022. The market size of sauce aroma baijiu in China is expected to grow at a CAGR of 12.2% from 2022 to 2026, from RMB203.3 billion in 2022 to RMB321.7 billion in 2026. The market share of sauce aroma baijiu in China's baijiu market is expected to grow from 32.7% in 2022 to 41.8% in 2026, surpassing that of strong aroma baijiu and becoming the largest among all aroma profiles. While experiencing growing popularity among consumers, premium sauce aroma baijiu has been in short supply due to the intricate process and longer period of production, and the scarcity of suitable terroir. As a result, sauce aroma baijiu, which accounts for only 8.4% of the total baijiu production in China, generated 31.5% of the revenue and over 45% of the profit of China's entire baijiu industry in 2021. The growing popularity of sauce aroma baijiu underpins promising growth potential. We believe we are well positioned to continue to benefit from this trend, especially with the continued growth of our flagship sauce aroma brand *Zhen Jiu*.

Our Growth Engines

We have built three tiers of growth engines consisting of a brand portfolio with precise product positioning targeting diverse consumer preferences and geographic areas. Our flagship brand *Zhen Jiu* is our major growth engine that continuously delivers strong and sizable growth across China. *Zhen Jiu*, primarily targeting sauce aroma baijiu lovers, was the fifth largest sauce aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five sauce aroma baijiu brands in China in the same year, according to Frost & Sullivan. *Zhen Jiu* ranked the fourth and the third, respectively, among all sauce aroma baijiu brands in China and in Guizhou in terms of annual production capacity of base liquor by the end of 2022, according to the same source. *Li Du*, our second growth engine, is expected to create additional momentum for continued growth. *Li Du* is a thriving brand featuring premium and above mixed aroma baijiu products, and has gained great success and is expanding into the national market. *Li Du* was the fifth largest mixed aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five mixed aroma baijiu brands in China in the same year, according to Frost & Sullivan. Our *Xiang Jiao* and *Kai Kou Xiao*, regional leading brands in the Hunan market, are expected to continue to contribute to our long-term sustainable growth. Through dynamic management of our brand portfolio and leveraging our expertise to identify favorable market trends, our three tiers of growth engines as a whole are well positioned to drive strong and sustainable growth over the long term.

During the Track Record Period, we achieved strong growth and outstanding profitability. In 2020, 2021 and 2022, our total revenue reached RMB2,398.9 million, RMB5,101.6 million and RMB5,855.9 million, respectively, representing an increase by 112.7% from 2020 to 2021 and an increase by 14.8% from 2021 to 2022. In 2020, 2021 and 2022, our net profit margin was 21.7%, 20.2% and 17.6%, respectively, while our adjusted net profit margin (non-IFRS measure) for the same periods was 21.7%, 21.0% and 20.4%, respectively.

OUR COMPETITIVE STRENGTHS AND GROWTH STRATEGIES

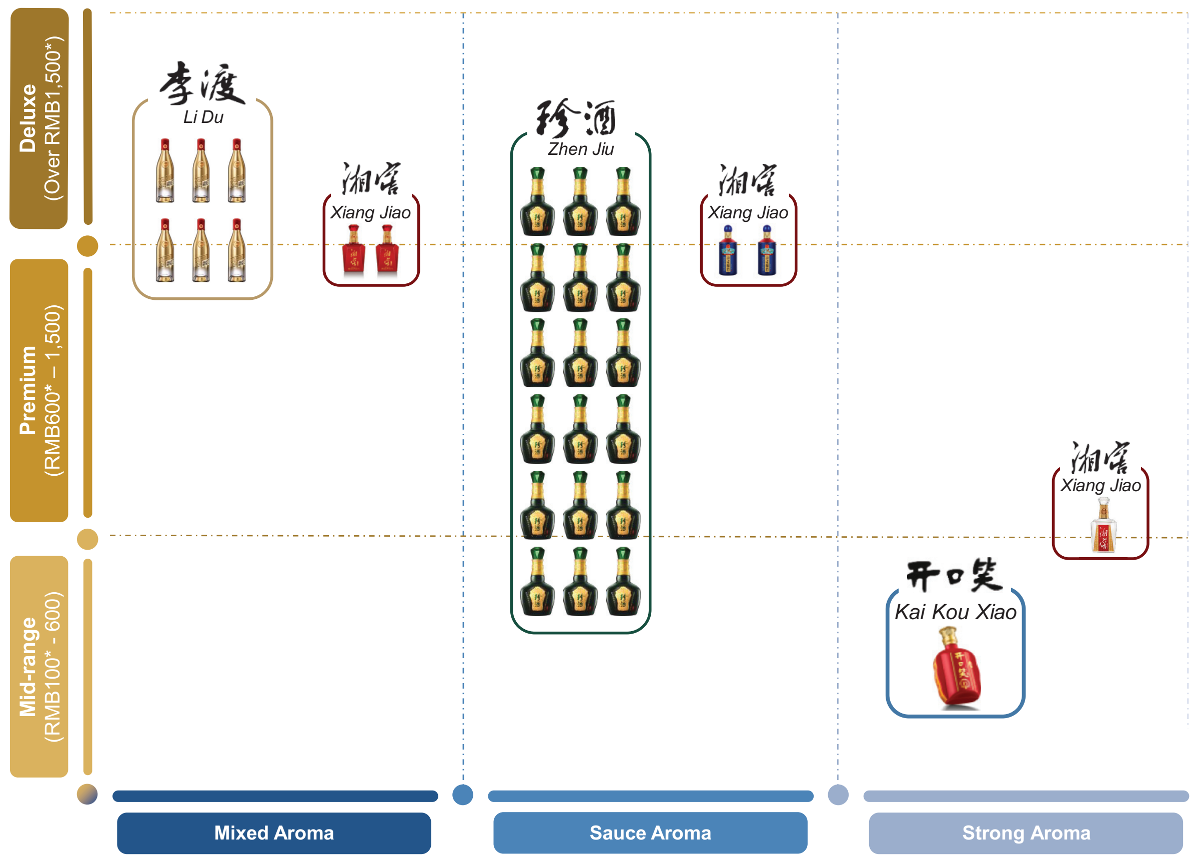
We believe the following strengths have contributed to our continuous growth and differentiated us from our competitors.

- A leading baijiu company carrying forward rich heritage and winning strong brand recognition.
- Three tiers of growth engines driving strong and sustainable growth.
- Sizable production capacity located in scarce and top baijiu production regions underpinning our core competitiveness and long-term growth potential.
- Meticulous baijiu-making techniques and solid product development capabilities demonstrated by well-liked products.
- Extensive multi-channel sales network characterized by immersive promotion strategies.
- Stringent quality control system assuring consistent and premium quality.
- Insightful founder and experienced senior management supported by skilled employees with strong industry experience.

Our growth strategies include continuing to enhance brand awareness and recognition, further expanding our production capacity to strengthen our core competitiveness, enhancing product development and expanding product portfolio, continuing to expand our sales network, soliciting and retaining quality talents, and committing to sustainable development.

OUR BRANDS AND PRODUCTS

We primarily operate four baijiu brands in China, including our flagship brand *Zhen Jiu*, a thriving brand *Li Du*, as well as two regional leading brands *Xiang Jiao* and *Kai Kou Xiao*. We position our four baijiu brands to target different consumer preferences and geographic areas in China, with our product portfolio covering three aroma profiles across different price ranges, as illustrated in the following diagram.



*Note: Price range refers to recommended retail price per volume of 500ml; * means including.*

The following table sets out a breakdown of our sales volume and average selling price by baijiu brand, our revenue in absolute amounts and as percentages of total revenue by baijiu brand, and our gross profit margin by baijiu brand, for the periods indicated.

	For the year ended December 31,														
	2020					2021					2022				
	Sales Volume (tons)	Revenue (RMB in thousand)	Average Selling Prices (RMB in thousand /ton)	% of Total Revenue	Gross Profit Margin (%)	Sales Volume (tons)	Revenue (RMB in thousand)	Average Selling Prices (RMB in thousand /ton)	% of Total Revenue	Gross Profit Margin (%)	Sales Volume (tons)	Revenue (RMB in thousand)	Average Selling Prices (RMB in thousand /ton)	% of Total Revenue	Gross Profit Margin (%)
Zhen Jiu	6,941	1,345,546	194	56.1	52.6	14,761	3,487,573	236	68.4	51.6	12,856	3,822,696	297	65.3	54.9
Li Du	1,687	359,225	213	15.0	68.4	2,750	649,954	236	12.7	66.8	2,076	886,850	427	15.1	64.9
Xiang Jiao	589	394,879	670	16.5	58.9	876	605,569	691	11.9	64.2	1,075	712,791	663	12.2	60.3
Kai Kou Xiao	1,920	172,033	90	7.1	36.8	2,484	256,579	103	5.0	39.8	3,011	338,675	112	5.8	38.5
Others*	8,305	127,232	15	5.3	2.4	5,427	101,918	19	2.0	5.1	4,855	94,905	20	1.6	5.7
Total	**19,443**	**2,398,915**	**123**	**100.0**	**52.2**	**26,299**	**5,101,593**	**194**	**100.0**	**53.5**	**23,875**	**5,855,917**	**245**	**100.0**	**55.3**

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

The following table sets forth a breakdown of our revenue by price range, in absolute amounts and as percentages of total revenue, for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Deluxe	378,375	15.8	908,090	17.8	1,438,700	24.6
Premium	862,712	36.0	1,933,552	37.9	2,388,084	40.8
Mid-range	1,002,503	41.8	2,149,229	42.1	1,931,076	33.0
Low-end	155,325	6.4	110,722	2.2	98,057	1.6
Total	**2,398,915**	**100.0**	**5,101,593**	**100.0**	**5,855,917**	**100.0**

OUR CUSTOMERS AND SALES CHANNELS

Our customers consist primarily of our distributors and direct sales clients. Revenue generated from our five largest customers in each of 2020, 2021 and 2022 accounted for 6.5%, 7.6% and 4.6% of our total revenue for the respective periods. We sell our baijiu products mainly through a nationwide network of distributors as well as via our direct sales team. We generally take into account a number of factors to set the prices of our baijiu products, including brand positioning, cost of production, market demand and competition. The following table sets forth a breakdown of our revenue and gross profit margin by sales channels for the periods indicated.

	For the year ended December 31,								
	2020			2021			2022		
	Revenue	Percentage of Revenue	Gross Profit Margin	Revenue	Percentage of Revenue	Gross Profit Margin	Revenue	Percentage of Revenue	Gross Profit Margin
	RMB	%	%	RMB	%	%	RMB	%	%
	(in thousands, except for percentages)								
Distributors									
Distribution partners	1,672,982	69.7	46.4	3,265,533	64.0	45.9	3,467,059	59.2	50.0
Featured stores	346,526	14.5	64.6	1,087,623	21.3	68.5	1,283,890	21.9	64.3
Retailers	93,805	3.9	65.3	176,023	3.5	65.0	448,948	7.7	66.0
Subtotal	2,113,313	88.1	50.2	4,529,179	88.8	52.1	5,199,897	88.8	54.9
Direct sales	285,602	11.9	67.5	572,414	11.2	65.0	656,020	11.2	58.5
Total	**2,398,915**	**100.0**	**52.2**	**5,101,593**	**100.0**	**53.5**	**5,855,917**	**100.0**	**55.3**

We have developed a variety of sales channels, allowing us to constantly expand our consumer outreach. We primarily rely on a nationwide network of distributors to promote and sell our baijiu products, consisting of (i) distribution partners, who primarily purchase our baijiu products from us and subsequently distribute them to sub-distributors, which are mainly retailers, such as supermarkets and tobacco and liquor stores, and end consumers, (ii) store partners, with whom we collaborate to develop featured stores, in which they not only sell our baijiu products, but also offer immersive, engaging consumer experience through versatile events, and (iii) retailers, primarily tobacco and liquor stores, restaurants and supermarkets, which sell our products directly to end consumers in their brick-and-mortar stores. Additionally, we also have dedicated direct sales force organized by brand and geographic areas who primarily serve end consumers and operate our online stores on various e-commerce platforms in China. For additional information about our distribution and sales network, including a discussion of our revenue generated from and gross margin for our different sales channels during the Track Record Period, see "Business — Sales and Distribution."

OUR PRODUCTION

We are committed to the time-honored traditional baijiu-making techniques and reinvigorating them by taking advantage of modern technologies to develop iconic tastes. Our flagship brand *Zhen Jiu* can trace its baijiu-making techniques to one of China's most prestigious baijiu brands. Building on the strong traditional Chinese baijiu culture in Lidu, Jiangxi, we pride ourselves on inheriting and reinvigorating the long-standing baijiu-making techniques and process. We strategically locate our production facilities in geographic regions most favorable for baijiu making, to ensure that our traditional baijiu-making techniques and local natural geographical advantages complement each other. The following table sets out certain details of our production facilities in operation as of the Latest Practicable Date.

Production Facility	Geographic Location	Major Brand(s) Served	Acreage(m^2)	Designed Production Capacity of Base Liquor (tons per year)	Utilization Rate during the Track Record Period (%)
Zhen Jiu (Shi Zi Pu) (十字鋪)	Zunyi, Guizhou	*Zhen Jiu*	315,422	15,000	98.7-103.2
Zhen Jiu (Zhao Jia Gou) (趙家溝)	Zunyi, Guizhou	*Zhen Jiu*	740,894	19,000	99.9(1)
Zhen Jiu (Moutai Town Shuang Long) (茅台鎮雙龍) ...	Zunyi, Guizhou	*Zhen Jiu*	125,501	1,000	N/A(2)
Li Du I	Lidu, Jiangxi	*Li Du*	14,975	400	86.1-87.4(3)
Li Du II	Lidu, Jiangxi	*Li Du*	58,098	1,600	86.1-87.4(3)
Xiang Jiao (Jiang Bei) (江北)	Shaoyang, Hunan	*Xiang Jiao* and *Kai Kou Xiao*	793,136	4,800	53.0-72.1

Notes:

(1) *Zhen Jiu* (Zhao Jia Gou) (趙家溝) commenced production in 2022 with a designed production capacity of 6,000 tons per year, and its corresponding utilization rate for the same year was 99.9%.

(2) *Zhen Jiu* (Moutai Town Shuang Long) (茅台鎮雙龍) was put into operation in 2023 with a designed production capacity of 1,000 tons per year and therefore its corresponding utilization rate for the Track Record Period is not available.

(3) Due to the proximity of *Li Du* I and *Li Du* II, we managed these two production facilities collectively and calculated the corresponding utilization rate as a whole during the Track Record Period.

During the Track Record Period, we gradually expanded our production capacity according to our expansion strategy and our forecast of market demand. We intend to further increase our overall production capacity progressively to satisfy market demand by expanding our existing production facilities and constructing new production facilities. As of the Latest Practicable Date, we had commenced the expansion of three existing production facilities, as well as the construction of one new production facility. These planned projects are expected to increase our annual production capacity of base liquor by 26,000 tons by 2024, among which 16,600 tons are for sauce aroma base liquor.

PROCUREMENT AND SUPPLIERS

We believe that maintaining high quality of our products depends largely on our ability to acquire the best available raw materials and other necessary supplies from reliable suppliers. We primarily procure raw materials and supplies, such as grains, and packaging materials and low value consumables such as baijiu bottles and packages, and base liquor. We particularly place a significant focus on the procurement of production materials, which have a material and direct impact on the quality and taste of our baijiu products, and in turn, our brand reputation. Purchases from our five largest suppliers in each of 2020, 2021 and 2022 accounted for 35.5%, 38.4% and 29.1% of our total purchases for the respective periods. For details, see "Business — Supply Chain Management — Our Suppliers."

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following table sets forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants' Report set out in Appendix I to this prospectus. The summary financial data set forth below should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this prospectus, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue
	(in thousands, except percentages)					
Revenue	2,398,915	100.0	5,101,593	100.0	5,855,917	100.0
Cost of sales	(1,145,794)	(47.8)	(2,371,847)	(46.5)	(2,616,987)	(44.7)
Gross profit	**1,253,121**	**52.2**	**2,729,746**	**53.5**	**3,238,930**	**55.3**
Profit from operations	**741,302**	**30.9**	**1,466,570**	**28.7**	**1,595,192**	**27.2**
Profit attributable to equity shareholders of the Company for the year	**520,088**	**21.7**	**1,032,197**	**20.2**	**1,029,866**	**17.6**

Non-IFRS Measures

To supplement our consolidated financial statements that are presented in accordance with IFRS, 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. 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.

	For the year ended December 31,		
	2020	2021	2022
	(RMB in thousands, except percentages)		
Profit attributable to equity shareholders of the Company for the year	**520,088**	**1,032,197**	**1,029,866**
Add:			
Listing expenses[1]	—	17,012	36,755
Changes in fair value in financial instruments issued to an investor[2]	—	21,617	130,668
Adjusted net profit (non-IFRS measure)	**520,088**	**1,070,826**	**1,197,289**
Adjusted net profit margin (non-IFRS measure)	**21.7%**	**21.0%**	**20.4%**

Notes:

(1) Listing expenses relate to this Global Offering of the Company.

(2) Changes in fair value in financial instruments issued to an investor arises from the changes in the fair value of our Series A Preferred Shares and warrants issued to Zest Holdings in connection with the Pre-IPO Investments. These changes in financial instruments are non-cash in nature. The warrants were terminated in June 2022 and accordingly we will no longer recognize any change in the fair value thereof. Upon completion of the Listing, the Series A Preferred Shares will be automatically converted into ordinary shares of our Company, and no profit or loss due to changes in the financial instruments will be recognized. As a result, this adjusted item will no longer exist after the Listing.

Our net profit increased from RMB520.1 million in 2020 to RMB1,032.2 million in 2021, primarily due to the increase in our revenue driven by the rising customer demand in China's sauce aroma baijiu market, our expanded sales network and our increasing brand recognition among consumers across China. Our net profit decreased slightly from RMB1,032.2 million in 2021 to RMB1,029.9 million in 2022, primarily because we recognized a loss of RMB130.7 million in changes in fair value in financial instrument issued to an investor in 2022, offset in part by an increase in our revenue. Our revenue growth in 2022 slowed down a bit primarily due to COVID-19 outbreaks and heightened pandemic-control measures adopted by local governments across China.

The following table sets forth the selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix I to this prospectus.

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Total non-current assets	829,729	2,330,116	3,812,989
Total current assets	3,816,279	5,314,339	7,245,900
Total assets	**4,646,008**	**7,644,455**	**11,058,889**
Total non-current liabilities	86,232	8,998,403	10,302,118
Total current liabilities	3,430,312	5,460,108	4,571,985
Total liabilities	**3,516,544**	**14,458,511**	**14,874,103**
Net current assets/(liabilities)	**385,967**	**(145,769)**	**2,673,915**
Net assets/(liabilities)	**1,129,464**	**(6,814,056)**	**(3,815,214)**

We recorded net current assets of RMB2,673.9 million as of December 31, 2022, as compared to net current liabilities of RMB145.8 million as of December 31, 2021. The change from net current liabilities position to net current assets position was attributable primarily to the increases in inventories of RMB1,489.2 million and income tax recoverable of RMB113.8 million, and the decreases in bank and other borrowings of RMB673.4 million and amounts due to related parties of RMB198.1 million.

We recorded net current liabilities of RMB145.8 million as of December 31, 2021, as compared to net current assets of RMB386.0 million as of December 31, 2020. The change from net current assets position to net current liabilities position was primarily due to the decrease in amounts due from related parties, which was offset by the distributions/dividends we declared in 2021 in an aggregate amount of RMB1,886.1 million.

We recorded net assets of RMB1,129.5 million as of December 31, 2020, and net liabilities of RMB6,814.1 million and RMB3,815.2 million as of December 31, 2021 and 2022, respectively. We turned into a net liabilities position from December 31, 2020 to December 31, 2021, primarily due to (i) remeasurement to fair value through equity upon issuance of Series A Preferred Shares resulting an decrease in net assets of RMB6,437.2 million, and (ii) the distributions/dividends we declared in 2021 in an aggregate amount of RMB1,886.1 million. Our net liabilities narrowed from December 31, 2021 to December 31, 2022, primarily due to (i) remeasurement to fair value through equity upon issuance of Series A Preferred Shares resulting an increase in net assets of RMB2,334.2 million, and (ii) termination of warrants of RMB472.2 million. The remeasurement to fair value through equity upon issuance represented the difference between the considerations received from the issuance of the Series A Preferred Shares and the fair value of the financial liabilities recognized at the date of the issuance of the Series A Preferred Shares.

We recorded total equity-deficit of RMB6,814.1 million and RMB3,815.2 million as of December 31, 2021 and December 31, 2022, respectively, primarily because we recorded financial instruments issued to an investor of RMB8,756.9 million and RMB10,253.8 million as liabilities, respectively. Our Series A Preferred Shares will automatically be converted into ordinary shares upon the Global Offering. As a result, the financial instruments issued to an investor will be transferred from financial liabilities to equity upon the Listing such that we would turn into a net assets position subsequently.

The following table sets forth our cash flows for the periods indicated:

	For the year ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Net cash generated from/(used in) operating activities	1,523,978	969,023	(710,616)
Net cash used in investing activities	(255,694)	(1,384,973)	(1,388,711)
Net cash (used in)/generated from financing activities	(1,068,294)	1,670,434	2,219,758
Net increase in cash and cash equivalents	**199,990**	**1,254,484**	**120,431**
Cash and cash equivalents at the beginning of the year	111,300	311,290	1,544,676
Effect of foreign exchange rate changes	–	(21,098)	18,275
Cash and cash equivalents at the end of the year	**311,290**	**1,544,676**	**1,683,382**

Net cash generated from operating activities decreased from RMB1,524.0 million in 2020 to RMB969.0 million in 2021, primarily due to the increase in inventories of RMB1,912.4 million as we have continued to expand our baijiu production catering to the growing market demand for our products.

Net cash used in operating activities for the year ended December 31, 2022 was RMB710.6 million, which consisted primarily of profit before taxation of RMB1,435.1 million, adjusted for certain non-cash and non-operating items. Adjustments for such non-cash and non-operating items primarily include (i) changes in fair value in financial instruments issued to an investor of RMB130.7 million, which was attributable primarily to changes in the valuation of our Company driven by our strong business growth and improved business outlook, and (ii) adjustments for depreciation expenses of RMB157.1 million. The amount was further adjusted by changes in working capital, primarily including (i) the increase in inventories of RMB1,489.2 million, as we continued to expand our baijiu production, (ii) the decrease in other payables and accruals of RMB319.2 million, and (iii) the increase in trade and bills receivables of RMB115.0 million.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the periods indicated.

	For the year ended December 31,		
	2020	2021	2022
Gross profit margin	52.2%	53.5%	55.3%
Net profit margin	21.7%	20.2%	17.6%
Adjusted net profit margin (non-IFRS measure)	21.7%	21.0%	20.4%
Return on assets[(1)]	13.6%	16.8%	11.0%

Notes:

(1) Equals profit attributable to equity shareholders of the Company for the year divided by the average of the beginning and ending total assets for that year and multiplied by 100%.

Rule 13.46(2) of the Listing Rules requires an overseas issuer to send an annual report or a summary financial report to its shareholders within four months after the end of the financial year to which the report relates. As this Prospectus already includes the financial information of the Company for the year ended December 31, 2022 as required under Appendix 16 of the Listing Rules, we will not separately prepare and send an annual report to our Shareholders for the year ended December 31, 2022, which will not be in breach of the Articles of Association, laws and regulations of Cayman Islands or other regulatory requirements. In addition, we will issue an announcement by April 30, 2023 stating that we will not separately prepare and send an annual report to our Shareholders for the year ended December 31, 2022 as the relevant financial information has been included in this Prospectus. Further, we have complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules and the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

RISK FACTORS

Our business and the Global Offering involve certain risks, including risks relating to (i) our business and industry; (ii) doing business in the PRC; and (iii) the Global Offering and our Shares. Some of the major risks we face include, but are not limited to, the following:

- Changes in consumer preferences, demand and spending patterns could materially and negatively affect our business and results of operations.
- Growth of our business will partially depend on the recognition of our brands, and any failure to maintain, protect and enhance our brands, including any negative publicity, would limit our ability to retain and expand our customer base, which would materially and adversely affect our business, financial condition and results of operations.
- The COVID-19 pandemic adversely affected, and may continue to affect, the demand for our products, our business operations and financial conditions.
- Our historical growth and profitability may not be indicative of our future financial performance, and we may not be able to sustain our revenue growth rate in the future. Our historical growth also makes it difficult to evaluate our future prospects and success.
- We operate in a highly competitive and rapidly evolving market in China.
- Our future success and growth potential are dependent on our ability to successfully implement our production capacity expansion plans.
- We rely on our distribution network to promote and sell baijiu products and generate a vast majority of revenue from our distributors.
- Our business and financial performance may be adversely affected by the uncertainties around macro-economic conditions in China, or a downturn, any adverse developments or changes in regulatory environment in China's baijiu industry. Specifically, the "Sangong Consumption Policy" (三公消費政策), which restricts government departments from incurring high administrative expenses for official receptions, purchases and business trips, has led to a decrease in baijiu consumption by government officials and had an impact on China's baijiu industry in the past several years after its first release in 2012.

- Any product quality issue could materially and adversely affect our results of operations.
- Changes to the pricing of our products could adversely affect our business, financial condition, results of operations and prospects.
- Changes in the availability and price of raw materials could have an adverse effect on our results of operations.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

During the Track Record Period, we had certain non-compliance incidents with respect to (i) properties and (ii) social insurance and housing provident funds. For details, see "Business — Properties" and "Business — Legal Proceedings and Compliance — Social Insurance and Housing Provident Funds." Our Directors confirm that we had complied with the relevant PRC laws and regulation in all material respects and except as disclosed in the "Business" section and in the "Risk Factors" section, we had obtained all requisite licenses, approvals and permits from relevant authorities in China during the Track Record Period and up to the Latest Practicable Date.

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised), Zhenjiu Holding will hold approximately 69.08% of the issued share capital of our Company. Zhenjiu Holding is wholly owned by Mr. Wu, our founder, chairman of the Board and a Controlling Shareholder. Accordingly, Zhenjiu Holding and Mr. Wu will be our Controlling Shareholders under the Listing Rules upon Listing. Mr. Wu indirectly controls companies which are engaged in the production and sale of baijiu products including Jinliufu (金六福), Yushuqian (榆樹錢), Jinyuanchun (今緣春), Yanfeng (雁峰), Wubi (無比), Linshui (臨水), Xiangshan (湘山) and Taibai (太白) (as and when controlled by Mr. Wu, collectively, the "**Excluded Baijiu Business**"). Having considered the price ranges, marketing positioning and profitability, types of aroma, distribution channels and geographic regions of baijiu products of the Group and the Excluded Baijiu Business, as well as the proposed business and corporate governance measures to be implemented upon Listing following the execution of the Deed of Non-competition (including the undertakings therein with respect to the Excluded Baijiu Business), the Directors of the Company are of the view that the competition between the Group and the Excluded Baijiu Business is not material and any conflict of interests can be effectively managed. For more details, see "Relationship with the Controlling Shareholders."

OUR PRE-IPO INVESTORS

Pre-IPO Investments in our Group were undertaken by ChinaNet and Zest Holdings, who are our Pre-IPO Investors. For details of background of the Pre-IPO Investors and the principal terms of the Pre-IPO Investments, see "History, Development and Corporate Structure — Pre-IPO Investments."

GLOBAL OFFERING STATISTICS

The Global Offering by us consists of:

- the offer by us of initially 49,070,000 Hong Kong Offer Shares, for subscription by the public in Hong Kong, referred to in this prospectus as the Hong Kong Public Offering; and
- the offer by us of initially 441,629,800 International Offer Shares, outside the U.S. (including to professional, institutional and other investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the U.S. to qualified institutional buyers in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act, referred to in this Prospectus as the International Offering.

	Based on the Offer Price of HK$10.78 per Share	**Based on the Offer Price of HK$12.98 per Share**
Market capitalization of our Shares(1)	HK$35,265 million	HK$42,462 million
Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share(2)	HK$3.79	HK$4.11

Notes:

* All statistics in this table are on the assumption that the Over-allotment Option is not exercised.

(1) The calculation of market capitalization is based on 3,271,331,050 Shares expected to be in issue immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).

(2) The unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share is calculated after making the adjustments referred to "Appendix II — Unaudited Pro Forma Financial Information."

DIVIDENDS AND DIVIDEND POLICY

As advised by our Cayman Islands legal advisor, under Cayman Islands law, a position of accumulated losses does not necessarily restrict our Company from declaring and paying dividends to our Shareholders out of either our profit or our share premium account, provided this would not result in our Company being unable to pay its debts as they fall due in the ordinary course of business. As we are a holding company incorporated under the laws of the Cayman Islands, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. We have adopted our dividend policy and any dividends we pay will be determined at the absolute discretion of our Board, taking into account factors including our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that our Board deems to be appropriate. Our Shareholders may approve, in a general meeting, any declaration of dividends, which must not exceed the amount recommended by our Board.

Our Group declared an aggregate of RMB1,886.1 million of distributions/dividends in 2021. The actual payment of these distributions/dividends will not be made until the completion of the Global Offering as our Group is contractually not allowed to pay any distributions/dividends to the Controlling Shareholders prior to an initial public offering pursuant to the agreement with one of our Pre-IPO Investors. After offsetting amounts due from related parties, we recorded dividends payables of RMB135.7 million and RMB144.8 million as of December 31, 2021 and December 31, 2022, respectively. We expect to settle the dividends payables in full with our operating cash in January 2024. For details of such amounts due from related parties, see "Financial Information — Discussion of Certain Key Items from Our Consolidated Statements of Financial Position — Amounts Due from Related Parties." Nevertheless, our Directors are of the view that these dividends payables to our Controlling Shareholders do not have any impact on our financial independence from our Controlling Shareholders because the payables will not materially adversely affect our liquidity, working capital or financial condition after the Listing. As of December 31, 2020, 2021 and 2022, we had cash at bank and on hand of RMB311.3 million, RMB1,544.7 million and RMB1,683.4 million, respectively.

Other than the foregoing, no other dividend was declared or paid throughout the Track Record Period and up to the date of this prospectus. Our Directors consider that dividends made during the Track Record Period are not indicative of our dividend payments in the future. See "Risk Factors — Risks Relating to the Global Offering and Our Shares — We cannot assure you whether and when we will declare and pay dividends in the future."

Purchasers of our Shares in the Global Offering will not be entitled to participate in the payment of our dividends payables of RMB144.8 million as of December 31, 2022.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$5,518 million, after deducting underwriting commissions, fees and estimated expenses payable by us in connection with the Global Offering, assuming no Over-allotment Option is exercised and assuming an Offer Price of HK$11.88 per Share, being the mid-point of the indicative Offer Price range stated in this prospectus.

We intend to use the net proceeds as follows (based on the mid-point of the Offer Price range stated in this prospectus):

- approximately 55.0%, or HK$3,035 million, will be used over the next five years to fund the construction and development of our production facilities, thereby expanding our baijiu production capacity progressively.
- approximately 20.0%, or HK$1,104 million, will be used over the next five years in brand building and market promotion, with a goal to drive brand awareness and foster a growing loyal consumer base.
- approximately 10.0%, or HK$552 million, will be used over the next five years to expand our sales channels, with a goal to continue to drive revenue growth.

- approximately 5.0%, or HK$276 million, will be used over the next five years to automate and digitalize our business operations leveraging advanced technologies.

- the remaining approximately 10.0%, or HK$552 million, will be used for working capital and general corporate purposes.

For further details, see "Future Plans and Use of Proceeds."

LISTING EXPENSES

Our listing expenses mainly include (i) underwriting-related expenses, such as underwriting fees and commissions, and (ii) non-underwriting-related expenses, comprising professional fees paid to our legal advisors and Reporting Accountants for their services rendered in relation to the Listing and the Global Offering, and other fees and expenses. Assuming full payment of the discretionary incentive fee, the estimated total listing expenses (based on the mid-point of the Offer Price Range and assuming that the Over-allotment Option is not exercised) for the Global Offering are approximately HK$311 million, accounting for approximately of 5.3% of our gross proceeds. Among such estimated total listing expenses, we expect to pay underwriting-related expenses of HK$213 million, professional fees for our legal advisors and Reporting Accountants of HK$70 million and other fees and expenses of HK$28 million. An estimated amount of HK$93 million for our listing expenses, accounting for approximately 1.6% of our gross proceeds, was or is expected to be expensed through the statement of profit or loss and the remaining amount of HK$218 million is expected to be recognized directly as a deduction from equity upon the Listing. We did not recognize any listing expenses in 2020. We recognized listing expenses of RMB17.0 million and RMB36.8 million in 2021 and 2022 in our consolidated statements of profit or loss and other comprehensive income, respectively.

RECENT DEVELOPMENTS

In February 2023, we obtained the land use right to a parcel of land located in Lidu, Jiangxi, with an aggregate area of 373,570 square meters. Such lands will be used to expand our production facilities. See "Business — Production Facilities — Planned Production Capacity Expansion."

The Impacts of and Our Responses to COVID-19

Since the beginning of 2022, the Omicron variant of COVID-19 has rebounded in China, which adversely impacted our normal business operations in every material aspects, including baijiu production, product sales and sales and marketing activities, throughout the year. In particular, while the fourth quarter is usually a peak season in a year for baijiu sales as Chinese people are anticipating family and friends gatherings during the upcoming New Year holidays and the Spring Festival, China's baijiu industry experienced tough times in the fourth quarter of 2022 amid the most difficult pandemic situation in China since the initial outbreak of COVID-19.

Another round of COVID-19 outbreaks throughout October and November 2022 resulted in multiple cities across China under lock-down. During the extensive lock-downs of the cities in China, we were not able to promote our baijiu products as planned to the extent customer visits or onsite events were required.

The mandatory closures of the featured stores and other points-of-sale where our baijiu products were on sale during this period also resulted in a decline in product sales and revenue. With respect to baijiu production, certain of our production facilities were temporarily shut down and/or operated with limited capacity amid the COVID-19 pandemic. China began to modify its zero-COVID policy in late 2022, and most of the travel restrictions and quarantine requirements were lifted in December 2022. There were significant surges of COVID-19 cases in many cities in China subsequently. The rapid spread of COVID-19 virus in a relatively short period of time has compelled people to stay at home and reduce banquets and social gatherings, which further caused temporary reductions in baijiu consumption, according to Frost & Sullivan. As a result of the foregoing, our revenue growth slowed and our net profit decreased from 2021 to 2022, and our sales for the first two months of 2023 were adversely affected. For the two months ended February 28, 2023, our shipment volume amounted to 5,150 tons and we recorded gross sales of RMB1,532.3 million.

Throughout the COVID-19 pandemic, we have taken various measures to mitigate the impacts of the COVID-19 pandemic on our baijiu production, product sales, supply chain and our staff. Such remedial measures include organizing online consumer events to improve consumer engagement, mobilizing internal and external resources to ensure logistics and securing resources supply. In addition, we have also implemented various precautionary policies to ensure the safety of our employees working remotely or onsite. For details, see "Financial Information — The Impacts of and Our Responses to COVID-19."

Recent Regulatory Update

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Enterprises (《境內企業境外發行證券和上市管理試行辦法》) (the "**Trial Administrative Measures**") and five supporting guidelines, which has become effective on March 31, 2023. Pursuant to the Trial Administrative Measures, PRC domestic enterprises that directly or indirectly offer or list their securities in an overseas market, which include (i) any PRC company limited by shares, and (ii) any offshore company that conducts its business operations primarily in China and contemplates to offer or list its securities in an overseas market based on its onshore equities, assets or similar interests, are required to file with the CSRC within three business days after its application for overseas listing is submitted. See "Regulatory Overview — Regulations on M&A and Overseas Listings."

On the same date, the CSRC promulgated the Notice on the Arrangement for the Filing-based Administration of Overseas Securities Offering and Listing by Domestic Enterprises (《關於境內企業境外發行上市備案管理安排的通知》) (the "**Arrangement for Filing-based Administration**") which, among others, clarifies that (1) the domestic enterprises that have already been listed overseas before the effective date of the Trial Administrative Measures (i.e., March 31, 2023) shall be deemed as existing applicants (存量企業) (the "**Existing Applicants**"). Existing Applicants are not required to complete the filing procedures immediately, and they shall be required to file with the CSRC when subsequent matters such as refinancing are involved; (2) a six-month transition period will be granted to domestic enterprises which, prior to the effective date of the Trial Administrative Measures, have already been approved by the overseas regulatory authorities or the overseas stock exchanges (for example, a contemplated offering and/or listing in Hong Kong has passed the hearing), and such domestic enterprises complete their overseas offering and listing within such six-month period (i.e., before September 30, 2023), they will be deemed as Existing Applicants. Within such six-month transition period, however, if such domestic enterprises need to re-perform the overseas regulatory procedures for overseas securities offering and listing, or fail to complete their indirect overseas offering and listing, such domestic enterprises shall complete the filing procedures with the CSRC; (3) for applicants who have received approval from the CSRC for a direct overseas listing, they may continue to pursue the overseas listing during the validity period of the approval. Those who have not completed the overseas offering and listing upon the expiry of the approval period should file with the CSRC as required.

We have passed the hearing before March 31, 2023. Our PRC Legal Advisor is of the view that if there is no re-hearing required by the Stock Exchange and this Global Offering can be completed before September 30, 2023, we will not be required to file with the CSRC with respect to this Global Offering.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of this prospectus, there has been no material adverse change in our financial, operational or trading position, indebtedness, contingent liabilities or prospects of our Group since December 31, 2022, the end of the period reported in the Accountants' Report set out in Appendix I to this prospectus, and there is no event since December 31, 2022 that would materially affect the information as set out in the Accountants' Report in Appendix I to this prospectus.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

"AFRC"	the Accounting and Financial Reporting Council of Hong Kong (formerly known as the Financial Reporting Council of Hong Kong)
"Articles of Association" or "Articles"	the fourth amended and restated articles of association of our Company conditionally adopted on April 11, 2023, which will become effective upon Listing, a summary of which is set out in "Appendix III — Summary of the Constitution of our Company and Cayman Islands Company Law"
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Board"	the board of directors of our Company
"Business Day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"Capital Market Intermediaries" or "capital market intermediary(ies)" or "CMI(s)"	the capital market intermediaries as named in the section headed "Directors and Parties Involved in the Global Offering"
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS EIPO"	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you

	are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC's Customer Service Center by completing an input request
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"Central China"	Henan Province, Hubei Province and Hunan Province of the PRC
"Changsha Xiangjiao"	Changsha Xiangjiao Liquor Trading Co., Ltd. (長沙湘窖酒業商貿有限公司), a company with limited liability established in the PRC on December 22, 2021 and an indirectly wholly owned subsidiary of our Company
"China," "mainland China," "PRC" or "State"	People's Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires otherwise, references in this prospectus to "China" and the "PRC" do not apply to Hong Kong, Macau and Taiwan
"ChinaNet"	ChinaNet Limited (大中華網訊有限公司, formerly known as ChinaNet Com Limited (大中華網訊有限公司) and Ever Brilliance Enterprise Limited (仁恆企業有限公司)), a company with limited liability incorporated in Hong Kong on November 17, 2000 and wholly owned by Mr. Ng
"China Wine"	China Wine Holding Company Limited (中國酒業控股有限公司), a company with limited liability incorporated in Hong Kong on March 9, 2009, an indirectly wholly owned subsidiary of our Company
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Companies Act" or "Cayman Companies Act"	the Companies Act (As Revised) of the Cayman Islands, as amended or supplemented from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

"Companies (WUMP) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company", "our Company", or "the 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
"connected person"	has the meaning ascribed thereto under the Listing Rules
"connected transaction"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and refer to Mr. Wu and Zhenjiu Holding
"Corporate Governance Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"Deed of Non-competition"	the deed of non-competition dated April 11, 2023 and executed by our Controlling Shareholders in favor of our Company (for ourselves and as trustee for our subsidiaries), details of which are set out in "Relationship with the Controlling Shareholders — Deed of Non-competition"
"Director(s)"	the directors of our Company, including all executive, non-executive and independent non-executive Directors
"Eastern China"	Shanghai Municipality, Jiangsu Province, Zhejiang Province, Shandong Province, Fujian Province, Jiangxi Province and Anhui Province of the PRC
"Extreme Conditions"	any extreme conditions or events, the occurrence of which will cause interruption to the ordinary course of business operations in Hong Kong and/or that may affect the Price Determination Date or the Listing Date
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party
"Frost & Sullivan Report"	an independent market research report commissioned and prepared by Frost & Sullivan for the purpose of this prospectus

"Global Offering"	the Hong Kong Public Offering and the International Offering
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **HK eIPO White Form** Service Provider designated by our Company
"Group", "our Group, "our", "we" or "us"	our Company and all of our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
"Guizhou Zhenjiu"	Guizhou Zhenjiu Holding Co., Ltd. (貴州珍酒控股有限公司), a company with limited liability established in the PRC on October 18, 2021 and an indirectly wholly owned subsidiary of our Company
"Heyuan Brewing"	Guizhou Heyuan Brewing Co., Ltd. (貴州荷苑釀酒有限公司), a company with limited liability established in the PRC on April 29, 2022 and an indirectly wholly owned subsidiary of our Company
"**HK eIPO White Form**"	the application for Hong Kong Offer Shares to be issued in the applicant's own name, submitted online through the **IPO App** or the designated website at **www.hkeipo.hk**
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company as specified in the **IPO App** or on the designated website at **www.hkeipo.hk**
"HK$" or "Hong Kong Dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited
"Hong Kong Offer Shares"	the 49,070,000 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering
"Hong Kong Public Offering"	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong at the Offer Price, subject to and in accordance with the terms and conditions set out in this prospectus

"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the Hong Kong Underwriting Agreement
"Hong Kong Underwriting Agreement"	the underwriting agreement dated April 14, 2023 relating to the Hong Kong Public Offering entered into by, among others, our Company, the Controlling Shareholders, the Sponsors, the Overall Coordinators and the Hong Kong Underwriters
"Huaze Group"	Huaze Group Co., Ltd. (華澤集團有限公司), a company with limited liability established in the PRC on February 1, 2005 and controlled by Mr. Wu
"Huaze Management"	Diqing Shangri-La Economic Development Zone Huaze Management Co., Ltd. (迪慶香格里拉經濟開發區華澤管理有限公司), a company with limited liability established in the PRC on January 9, 2006 and controlled by Mr. Wu
"Hunan Xiangjiao"	Hunan Xiangjiao Liquor Industry Co., Ltd. (湖南湘窖酒業有限公司), a company with limited liability established in the PRC on November 7, 2003 and an indirectly wholly owned subsidiary of our Company
"Hunan Xiangjiao Sales"	Hunan Xiangjiao Liquor Sales Co., Ltd. (湖南湘窖酒業銷售有限公司) (formerly known as Shaoyang Kaikouxiao Liquor Co., Ltd. (邵陽開口笑酒業有限責任公司)), a company with limited liability established in the PRC on November 28, 2001 and an indirectly wholly owned subsidiary of our Company
"Hunan Zhenjiu Catering"	Hunan Zhenjiu Zhenpin Catering Co., Ltd. (湖南珍酒珍品餐飲有限公司), a company with limited liability established in the PRC on November 24, 2022 and an indirectly wholly owned subsidiary of our Company
"Hunan Zhenjiu Trading"	Hunan Zhenjiu Trading Co., Ltd. (湖南珍酒商貿有限公司), a company with limited liability established in the PRC on September 26, 2022 and an indirectly wholly owned subsidiary of our Company
"Independent Third Party(ies)"	party or parties that is or are not a connected person within the meaning of the Listing Rules
"International Offer Shares"	the 441,629,800 Shares being offered for subscription under the International Offering, together, where relevant, with any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option

"International Offering"	the offer of the International Offer Shares at the Offer Price, in the United States to QIBs only in reliance on Rule 144A or any other available exemption from registration under the U.S. Securities Act and outside the United States in offshore transactions in accordance with Regulation S
"International Underwriters"	the group of international underwriters expected to enter into the International Underwriting Agreement relating to the International Offering
"International Underwriting Agreement	the international underwriting agreement relating to the International Offering to be entered into by, among others, our Company, the Controlling Shareholders, the Overall Coordinators, the Joint Global Coordinators, the International Underwriters and the Capital Market Intermediaries on or about the Price Determination Date
"**IPO App**"	the mobile application for the **HK eIPO White Form** service which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**
"Jiangxi Lidu"	Jiangxi Lidu Liquor Industry Co., Ltd. (江西李渡酒業有限公司), a company with limited liability established in the PRC on April 8, 2002 and an indirectly wholly owned subsidiary of our Company
"Jiangxi Lidu Sales"	Jiangxi Lidu Liquor Sales Co., Ltd. (江西李渡酒業銷售有限公司), a company with limited liability established in the PRC on June 16, 2015 and an indirectly wholly owned subsidiary of our Company
"Jiangxi Lidu Trading"	Jiangxi Lidu Trading Co., Ltd. (江西李渡貿易有限公司), a company with limited liability established in the PRC on December 15, 2021 and an indirectly wholly owned subsidiary of our Company
"Jindong Group"	Hunan Jindong Liquor Industry Co., Ltd. (湖南金東酒業有限公司) (formerly known as Hunan Jinliufu Liquor Industry Co., Ltd. (湖南省金六福酒業有限公司)), a company with limited liability established in the PRC on March 23, 2000 and controlled by Mr. Wu
"Jindong Investment"	Jindong Investment Group Co., Ltd. (金東投資集團有限公司), a company with limited liability established in the PRC on January 11, 2013 and controlled by Mr. Wu
"Jindong Sauce"	Jindong Sauce Liquor Brewing Co., Ltd. (金東醬酒釀造有限公司), a company with limited liability established in the PRC on January 20, 2020 and an indirectly wholly owned subsidiary of our Company

"Jinliufu Trading"	Yunnan Jinliufu Trading Co., Ltd. (雲南金六福貿易有限公司), a company with limited liability established in the PRC on November 5, 2010 and controlled by Mr. Wu
"Joint Bookrunners"	the joint bookrunners as named in the section headed "Directors and Parties Involved in the Global Offering"
"Joint Global Coordinators"	the joint global coordinators as named in the section headed "Directors and Parties Involved in the Global Offering"
"Joint Lead Managers"	the joint lead managers as named in the section headed "Directors and Parties Involved in the Global Offering"
"Joint Sponsors"	Goldman Sachs (Asia) L.L.C. and China Securities (International) Corporate Finance Company Limited
"Latest Practicable Date"	April 9, 2023, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Listing"	the listing of our Shares on the Main Board
"Listing Committee"	the listing committee of the Hong Kong Stock Exchange
"Listing Date"	the date, expected to be on or about April 27, 2023, on which our Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Longhui Xiangjiao"	Longhui Xiangjiao Trading Co., Ltd. (隆回湘窖商貿有限公司) (formerly known as Shaoyang Longhui Xiangjiao Dongcang Liquor Sales Co., Ltd. (邵陽市隆回湘窖洞藏白酒銷售有限公司)), a company with limited liability established in the PRC on October 13, 2020 and an indirectly wholly owned subsidiary of our Company
"M&A Rules"	Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (《關於外國投資者併購境內企業的規定》), which were jointly promulgated by MOFCOM, the SASAC, the STA, the SAIC, the CSRC, and the SAFE on August 8, 2006, which came into effect on September 8, 2006 and was subsequently amended on June 22, 2009

"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the GEM of the Stock Exchange
"Memorandum" or "Memorandum of Association"	the fourth amended and restated memorandum of association of our Company conditionally adopted on April 11, 2023 to take effect upon Listing, a summary of which is set out in "Appendix III — Summary of the Constitution of our Company and Cayman Islands Company Law"
"ml"	milliliter
"MOFCOM" or "Ministry of Commerce"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Ng"	Mr. Ng Kwong Chue Paul (吳光曙), our executive Director, company secretary, and one of our Pre-IPO Investors
"Mr. Wu"	Mr. Wu Xiangdong (吳向東), our founder, chairman of the Board and a Controlling Shareholder
"Nanchang Lidu"	Nanchang Lidu Trading Co., Ltd. (南昌李渡商貿有限公司), a company with limited liability established in the PRC on September 24, 2021 and an indirectly wholly owned subsidiary of our Company
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"Northeastern China"	Liaoning Province, Jilin Province, Heilongjiang Province and Inner Mongolia Autonomous Region of the PRC
"Northern China"	Beijing Municipality, Tianjin Municipality, Hebei Province and Shanxi Province of the PRC
"Northwestern China"	Shaanxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Gansu Province and Xinjiang Uygur Autonomous Region of the PRC
"Offer Price"	the final offer price per Offer Share (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%) of not more than HK$12.98 and expected to be not less than HK$10.78, such price to be agreed upon by our Company and the Overall Coordinators (on behalf of the Underwriters) on or before the Price Determination Date

"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares
"Over-allotment Option"	the option expected to be granted by us to the International Underwriters, exercisable by the Overall Coordinators (for themselves and on behalf of the International Underwriters) under the International Underwriting Agreement, pursuant to which we may be required to allot and issue up to an aggregate of 73,604,800 additional Shares (representing approximately 15% of our Shares initially being offered under the Global Offering), at the Offer Price, to cover over-allocations in the International Offering, if any
"Overall Coordinator(s)"	the overall coordinators as named in the section headed "Directors and Parties Involved in the Global Offering"
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"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
"PRC Legal Advisor"	King & Wood Mallesons, our legal advisor as to PRC Laws
"Pre-IPO Investment(s)"	the pre-IPO investments in the Company undertaken by the Pre-IPO Investors pursuant to the relevant investment agreements, see "History, Development and Corporate Structure — Pre-IPO Investments"
"Pre-IPO Investor(s)"	the investors in our Company prior to the Global Offering as set forth in "History, Development and Corporate Structure — Pre-IPO Investments"
"Preferred Shares" or "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
"Price Determination Agreement"	the agreement to be entered into between our Company and the Overall Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date to record the Offer Price
"Price Determination Date"	the date, expected to be on or about April 20, 2023 on which the Offer Price is determined, or such later time as the Overall Coordinators (for themselves and on behalf of the Underwriters) and our Company may agree, but in any event no later than April 26, 2023

"Prospectus"	this prospectus being issued in connection with the Hong Kong Public Offering
"QIB"	a qualified institutional buyer within the meaning of Rule 144A
"Regulation S"	Regulation S under the U.S. Securities Act
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	the lawful currency of the PRC
"Reorganization"	the reorganization of our Group in preparation for Listing, see "History, Development and Corporate Structure — Reorganization"
"Rongrui Group"	Tibet Rongrui Investment Co., Ltd. (西藏融睿投資有限公司), a company with limited liability established in the PRC on December 13, 2012 and controlled by Mr. Wu
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), currently known as the SAMR
"SAMR"	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局), formerly known as the SAIC
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"SCNPC"	the Standing Committee of the National People's Congress of the PRC (中華人民共和國全國人民代表大會常務委員會)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Shaoyang Xiangjiao"	Shaoyang Xiangjiao Trading Co., Ltd. (邵陽湘窖商貿有限公司), a company with limited liability established in the PRC on April 26, 2020 and an indirectly wholly owned subsidiary of our Company

"Share(s)"	ordinary shares in the share capital of our Company of US$0.0001 each prior to the Share Subdivision and US$0.000002 each upon the completion of the Share Subdivision
"Share Subdivision"	the subdivision of each issued and unissued ordinary shares in the Company with par value of US$0.0001 each into 50 Shares with par value of US$0.000002 each, and each issued and unissued Preferred Shares in the Company with par value of US$0.0001 each into 50 Preferred Shares with par value of US$0.000002 each, details of which are set out in section headed "Appendix IV — Statutory and General Information — A. Further Information about Our Company and Our Subsidiaries — 4. Written Resolutions Passed by Our Shareholders on April 11, 2023"
"Shareholder(s)"	holder(s) of our Share(s)
"Southern China"	Guangdong Province, Guangxi Zhuang Autonomous Region and Hainan Province of the PRC
"Southwestern China"	Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province and Xizang (Tibet) Autonomous Region of the PRC
"STA"	the State Taxation Administration of the PRC (中華人民共和國國家稅務總局)
"Stabilizing Manager"	Goldman Sachs (Asia) L.L.C.
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Borrowing Agreement"	the stock borrowing agreement expected to be entered into between the Stabilizing Manager or its affiliates and Zhenjiu Holding on or around the Price Determination Date
"subsidiary(ies)"	has the meaning ascribed thereto in section 15 of the Companies Ordinance
"substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Tibet Xiangjiao"	Tibet Xiangjiao Liquor Sales Co., Ltd. (西藏湘窖酒業銷售有限公司) (formerly known as Tibet Huaze Xiang Jiu Sales Co., Ltd. (西藏

	華澤湘酒銷售有限公司)), a company with limited liability established in the PRC on February 28, 2013 and an indirectly wholly owned subsidiary of our Company
"Track Record Period"	the three financial years ended December 31, 2020, 2021 and 2022
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. persons"	U.S. persons as defined in Regulation S
"U.S. Securities Act"	United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
"VAT"	value-added tax
"Vats Hunan"	VATS Hunan Winery Limited (華澤湘酒有限公司, formerly known as Anhui VATS Winery Inc.), a limited company incorporated in the BVI on February 14, 2012 and wholly owned by our Company.
"Vats Liquor"	Vats Liquor Chain Store Management Joint Stock Co., Ltd. (華致酒行連鎖管理股份有限公司), a joint stock limited company established in the PRC on May 26, 2005, listed on the ChiNext market of the Shenzhen Stock Exchange (stock code: 300755) and controlled by Mr. Wu
"Xiang Jiao Long Jiang" Series	include multiple versions catering to the consumers preference with the standard version Xiang Jiao Long Jiang (湘窖·龍匠) as the core offering
"Zest Holdings"	Zest Holdings II Pte. Ltd., a limited liability company incorporated in Singapore on June 30, 2021
"Zhenjiu Brewing"	Guizhou Zhenjiu Brewing Co., Ltd. (貴州珍酒釀酒有限公司), a company with limited liability established in the PRC on September 28, 2009 and an indirectly wholly owned subsidiary of our Company
"Zhenjiu Commercial Trading"	Guizhou Zhenjiu Commercial Trading Co., Ltd. (貴州珍酒商貿有限公司), a company with limited liability established in the PRC on December 10, 2021 and an indirectly wholly owned subsidiary of our Company

"Zhenjiu Holding"	ZhenJiu Holding Limited (珍酒控股有限公司), a company with limited liability incorporated in the BVI on September 8, 2021, one of our Controlling Shareholders
"Zhenjiu Sales"	Guizhou Zhenjiu Sales Co., Ltd. (貴州珍酒銷售有限公司), a company with limited liability established in the PRC on October 15, 2009 and an indirectly wholly owned subsidiary of our Company
"Zhenjiu Trading"	Guizhou Zhenjiu Trading Co., Ltd. (貴州珍酒貿易有限公司), a company with limited liability established in the PRC on July 10, 2019 and an indirectly wholly owned subsidiary of our Company
"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

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in the prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese version shall prevail. English translations of company names and other terms from the Chinese language are provided for identification purposes only.

This glossary contains explanations of certain technical terms used in this prospectus in connection with our Company and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

"ABV"	alcohol by volume
"baijiu"	a colorless distilled liquor made from grain as the main raw material, with qu, wheat bran, enzyme and yeast as saccharification and fermentation agents
"CAGR"	compound annual growth rate
"deluxe"	in the context of price range of baijiu products, refers to baijiu with recommended retail price that is over RMB1,500 (incl) per volume of 500ml
"Douyin"	Douyin (抖音), a leading social media short-form video app in China for creating and sharing short lip-sync, comedy, and talent videos
"ERP"	enterprise resource planning
"gross sales"	in the context of baijiu products, refers to the ex-factory price of products dispatched to distributor
"KPI"	key performance indicator
"liquor"	an alcoholic beverage typically made through a process of fermentation and distillation, which involves converting the sugars in the raw materials into alcohol. Liquor typically has high ABV, usually 30% or above
"low-end"	in the context of price range of baijiu products, refers to baijiu with recommended retail price that is below RMB100 (incl) per volume of 500ml
"mid-range"	in the context of price range of baijiu products, refers to baijiu with recommended retail price that is between RMB100 (incl) to RMB600 per volume of 500ml
"premium"	in the context of price range of baijiu products, refers to baijiu with recommended retail price that is between RMB600 (incl) and RMB1,500 per volume of 500ml
"qu"	a combination of mold, yeast, and bacteria used for baijiu production
"RFID"	radio-frequency identification

"terroir"	the combination of environmental factors that affect the way a particular baijiu aroma formed in the context of baijiu production
"ton"	metric ton, a unit measuring weight, equal to 1,000 kilograms
"Weibo"	Sina Weibo (新浪微博), a Chinese microblogging (weibo) website and social media platform
"Weixin"	Weixin (微信), a Chinese instant messaging, social media and mobile payment app

We have included in this prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This prospectus contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words "aim", "anticipate", "believe", "could", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "will", "would" and the negative of these words and other similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our operations and business prospects;
- our financial condition and operating results and performance;
- industry trends and competition;
- our strategies, plans, objectives and goals and our ability to successfully implement these strategies, plans, objectives and goals;
- our ability to attract customers and build our brand image;
- general political and economic conditions;
- future developments of the COVID-19 outbreak in the PRC and globally;
- changes to regulatory and operating conditions in the industry and markets in which we operate; and
- the amount and nature of, and potential for, future development of our business.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

In this prospectus, statements of or references to our intentions or those of our Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

An investment in our Shares involves significant risks. You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could materially and adversely affect our business, financial condition, and results of operations. The market price of our Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment.

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in "Forward-looking Statements" in this prospectus.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Changes in consumer preferences, demand and spending patterns could materially and negatively affect our business and results of operations.

Our success depends substantially on our continued ability to offer appealing, high-quality baijiu products to consumers. Consumer preferences and demand with respect to tastes and texture, alcohol content, aroma profiles and packaging designs may shift, often in unpredictable ways, as a result of various factors that may be out of our control. Changes in consumption patterns, especially among younger generations who may prefer other types of liquor or beverage, are also challenges for us. For example, health and wellness trends and increased concerns about alcohol intake may drive consumers away from our baijiu products. Other factors that could affect consumer preferences and demand include:

- changes in economic conditions, demographics and social trends in China;
- public health policies and initiatives;
- changes in regulatory landscape with respect to alcohol products in China;
- concerns or regulations related to food safety and product quality in China; and
- changes in trends related to leisure, dining, gifting, entertaining and baijiu consumption.

We primarily produce and sell sauce aroma, mixed aroma and strong aroma baijiu under different brands, with sauce aroma baijiu being our major growth engine. According to Frost & Sullivan, the market size of sauce aroma baijiu is expected to grow from RMB203.3 billion in 2022 to RMB321.7 billion by 2026, representing a CAGR of 12.2%, making its market share of 41.8% in 2026, the largest among all aroma profiles. There can be no assurance that the popularity of sauce aroma baijiu will continue to rise among consumers or that our product portfolio will continue to be popular among consumers in China. Consumers may choose baijiu products offered by our competitors, shift their preference toward baijiu products with other aroma profiles, or may switch to other alcohol products such as beers and wines and reduce their baijiu consumption in general. Any changes in consumer preferences and tastes may impose downward pressure on pricing and sales of our baijiu products, or result in increases in our selling and distribution expenses.

In addition, our operational and financial results may deteriorate if we fail to attract consumers from diverse background and age groups in all markets where we sell our baijiu products. To continue to succeed, we must anticipate or react effectively to shifts in demographics, consumer behavior, consumer preferences, drinking tastes, and drinking occasions, and if we fail to do so, our business, prospects and results of operations may be materially and adversely affected.

Growth of our business will partially depend on the recognition of our brands, and any failure to maintain, protect and enhance our brands, including any negative publicity, would limit our ability to retain and expand our customer base, which would materially and adversely affect our business, financial condition and results of operations.

We believe that our brand recognition among consumers helps us manage our customer acquisition costs and has contributed to the growth and success of our business. Many factors, some of which beyond our control, are important to maintaining, protecting and enhancing consumers' recognition of our brands. These factors include our ability to:

- maintain and improve the quality and attractiveness of the baijiu products we offer;
- increase brand awareness through marketing and brand promotion activities;
- maintain good relationship and retain favorable terms with our suppliers, distributors and other business partners;
- protect our intellectual properties and ensure compliance with relevant laws and regulations; and
- preserve our reputation and goodwill generally and in the event of any negative publicity on our products, or other issues affecting us or China's food and beverage sector in general.

A public perception that we or other industry participants do not provide satisfactory products or services to consumers, even if factually incorrect or based on isolated incidents, could damage our reputation, diminish the value of our brands, undermine the trust and credibility we have established and result in a negative impact on our ability to attract and retain customers. In addition, publicity about our business creates the possibility of heightened attention from the public, regulators and the media. Heightened regulatory and public concerns over customer protection and customer safety issues may subject us to additional legal and social responsibilities and increased scrutiny and negative publicity over these issues. Any negative report regarding our products and business, regardless of its truthfulness, could damage our brand image and severely affect the sales of our products and possibly lead to product liability claims, litigations or damages. Improper behaviors or statements of our spokespersons, endorsers and other celebrities we have cooperated with and our employees may also result in substantial harm to our brand reputation and operations. There is no assurance that we would not become a target for regulatory or public scrutiny in the future or that scrutiny and public exposure would not severely damage our reputation as well as our business and prospects.

The COVID-19 pandemic adversely affected, and may continue to affect, the demand for our products, our business operations and financial conditions.

The COVID-19 pandemic has adversely affected our business operations, cash flows and financial condition. During the COVID-19 pandemic, the mobility of consumers was reduced and certain retail points of sale were closed, which adversely affected the sales growth of our baijiu products. In addition, due to the

COVID-19 pandemic and the resulting local governments' relevant control measures, operation of certain of our production facilities was temporarily suspended. Since the beginning of 2022, the Omicron variant of COVID-19 has rebounded in China, which resulted in city-wide lockdowns in a number of Chinese cities, including those in which our production facilities and warehouses are located. This caused disruptions to varying degrees to normal business activities in China, including our operations. Reduced social activities amid new COVID-19 outbreaks, coupled with the gloomy macroeconomic conditions across the world, have resulted in a temporary fluctuation in baijiu consumption, especially premium baijiu products on which we focus. Heightened epidemic prevention measures have also limited our sales and marketing initiatives and campaigns, such as distillery tour and baijiu tasting events, in the affected cities. In late 2022 and early 2023, China experienced a surge in COVID-19 confirmed cases, compelling people to stay at home and reduce banquets and social gatherings, which led to temporary decreases in baijiu consumption in China. With respect to baijiu production, our normal production activities also have experienced temporary disruptions caused by labor shortages as staff were absent from work due to COVID-19 contraction.

We cannot assure you that our efforts to mitigate the impact of the COVID-19 pandemic on our business operations will always be effective or at all. Furthermore, we may in the future experience additional disruptions that could materially and adversely impact our business operations, financial condition and results of operations, including but not limited to:

- decreases in consumer demand and/or consumer spending due to the rapid spread of the COVID-19, which in turn will negatively affect our revenue and profitability;
- disruptions in our operation, production and supply chain;
- inability to implement our growth plans, including delays in construction of production facilities or adversely impact our overall ability to successfully execute our plans to enter into new markets; and
- additional regulations or requirements with respect to compensation of our employees.

To the extent the COVID-19 pandemic adversely affects our business and operations, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section, such as those relating to our ability to address potential changes in consumers' preferences, demand and spending patterns, effectively manage our nationwide distribution network, and conduct branding and marketing activities cost-effectively. There are no comparable recent events that provide guidance as to the effect the COVID-19 pandemic as a global pandemic may have, and, as a result, the ultimate impact of the pandemic is highly uncertain and subject to change, even though conditions have been improving. The extent to which the COVID-19 pandemic may impact our business will depend on future developments, which are highly uncertain and unpredictable, such as the duration of the outbreak and the impact of the spread of COVID-19 on baijiu consumption. For details, see "Financial Information — The Impacts of and Our Responses to COVID-19."

Our historical growth and profitability may not be indicative of our future financial performance, and we may not be able to sustain our revenue growth rate in the future. Our historical growth also makes it difficult to evaluate our future prospects and success.

We experienced rapid growth during the Track Record Period. Our revenue increased significantly by 112.7% from RMB2,398.9 million in 2020 to RMB5,101.6 million in 2021. Our revenue increased by

14.8% from RMB5,101.6 million in 2021 to RMB5,855.9 million in 2022. We cannot assure you that the demand for our baijiu products will continue to grow at a similar rate in the future due to various reasons including market saturation as well as competition from new market participants and alternative products.

Our net profit margin in 2020, 2021 and 2022 was 21.7%, 20.2% and 17.6% respectively, while our adjusted net profit margin (non-IFRS measure) for the same periods was 21.7%, 21.0% and 20.4%, respectively. Our ability to sustain high profitability depends on whether we can continue generating a high level of revenue, which in turn largely relies on baijiu consumption in China, and managing costs and expenses effectively. If China's baijiu consumption experiences material downturn or we fail to manage our growth or sustain our profitability effectively, our business, financial condition and results of operations could be adversely affected.

We operate in a highly competitive and rapidly evolving market in China.

The baijiu industry in China is highly competitive. We mainly compete with a large and growing number of baijiu brands with diverse aroma profiles in China on the basis of brand awareness, price, product quality and safety, distribution networks and consumer services, among other things. There can be no assurance that we will always be able to compete effectively against existing and future competitors. Some of our competitors have solid positions in several market segments with longer operating histories, more established local presence, and/or greater financial, product development, sales and marketing or other resources. In addition, our baijiu products compete with baijiu products with the same or different aroma profiles. For example, if we fail to maintain our competitive advantages in our sauce aroma baijiu, consumers may switch to sauce aroma baijiu produced by other companies, or switch to baijiu products of other aroma profiles, in which case we will lose our consumers and our business, results of operations and financial condition could be materially and adversely affected.

Furthermore, as we continue to expand our product offerings and broaden our business presence across China, we also expect to compete against additional nationwide and local baijiu brands. Increased competition may reduce our market share and profitability, and require us to increase our sales and marketing efforts and capital commitment in the future, which could negatively affect our results of operations or force us to incur additional losses. Although we have accumulated a large and growing consumer base, there can be no assurance that we will be able to continue to do so in the future against existing and future competitors. If we fail to compete effectively, we may lose customers and market shares, and our business, results of operations and financial condition may be materially and adversely affected. For additional information related to the competitive landscape of our industry, see "Industry Overview."

Our future success and growth potential are dependent on our ability to successfully implement our production capacity expansion plans.

We have been expanding our production capacity to meet the increasing consumers' demand for our baijiu products. As of the Latest Practicable Date, we had commenced the expansion of three existing production facilities as well as the construction of one new production facility. There is no assurance that such expansion plan will be successfully implemented in a timely manner, or will be commercially successful. Our production capacity expansion plan is also subject to interruptions caused by risks commonly associated with large construction and expansion projects, such as adverse weather conditions, natural disasters, accidents and unforeseen circumstances and problems, and other factors beyond our control. As such, we may not be able to achieve the planned production capacity expansion on time.

In addition, expanding our production capacity is costly. Our ability to obtain sufficient capital to fund our production capacity expansion is subject to a number of uncertainties, including those relating to our future business development, financial condition and results of operations, general market conditions for financing activities by companies in our industry, and macro-economic and other conditions in China and globally. If we cannot obtain sufficient capital on acceptable terms to meet our needs, we may not be able to execute our growth strategies, and our business, financial condition and prospects may be materially and adversely affected.

Furthermore, our fixed costs will increase as a result of our production capacity expansion. Since we have not entered into any long-term sales contract, we may not be able to sell our products at such quantities and/or prices with commercially acceptable margins and our production facilities may be underutilized. If we are unable to sell our additional baijiu products on a commercially acceptable basis and/or our production facilities are underutilized, our business, financial condition, results of our operations and prospects would be materially and adversely affected.

We rely on our distribution network to promote and sell baijiu products and generate a vast majority of revenue from our distributors.

We depend on an effective distribution network to deliver our baijiu products to consumers, and our distributors play an important role in expanding our geographic footprints and driving sales of our baijiu products. Generally, our distributors purchase products from us and then resell them to sub-distributors, which are mainly third-party retailers, and end consumers. Revenue contributed by our distributors accounted for 88.1%, 88.8% and 88.8% of our total revenue in 2020, 2021 and 2022, respectively. For further information on our distributors, see "Business — Sales and Distribution — Distributors."

A distributorship model is inherently risky. Such risks may include:

- *Limited control*. We have limited control over the business operation of our distributors and we cannot assure you that distributors will operate their business in compliance with our distribution agreements, sales policies and the relevant laws and regulations. Any non-compliance with the distribution agreements or sales policies by any of our distributors could disrupt our sales and may in turn affect our business and results of operations. Additionally, if our distributors do not effectively market and sell our baijiu products, or fail to respond to the needs of third-party retailers and end consumers in time, our market reputation may be damaged, and our ability to grow our business may be adversely affected.

- *Long-term sustainability*. There is no assurance that our distributors will be able to maintain a sales level comparable to their performance during the Track Record Period, or that they will be able to achieve their sales targets. If our distributors fail to maintain the sales pipelines of our baijiu products, or if there is any material interruption to our relationship with distributors, we may lose a significant portion or all of our sales channel in the relevant sales territories. In the event of any material interruption to our relationship with distributors, or upon termination of our relationship for whatever reasons, there is no assurance that we may be able to replace a distributor in its responsible sales territory with comparable sales capability in a timely and cost-effective manner, or at all.

- *Competition*. Certain distributors may act both for us and certain of our competitors. There can be no assurance as to the financial interest of our distributors and that they will not give our competitors' products higher priority, thereby reducing their efforts to sell our products. As independent companies, distributors make their own business decisions that may not always align with our interests. If our distributors do not effectively distribute our products, our financial results could be adversely affected.

- *Use of our brand names*. To enhance the marketability of our brands and the sales performance of our baijiu products, we generally allow our distributors to use our brand names in business activities that might be ancillary to the sales and promotion of our baijiu products, on the condition that they must act professionally and must refrain from doing any act which would be detrimental to our reputation, prospects and market position. Nevertheless, the actual actions of our distributors may be beyond our control and any wrongdoings (such as corruption, bribery or other illegal acts or actions generally considered detrimental to our brand value) committed by them while selling or promoting our baijiu products, or otherwise using our brand names, will subject us to material reputation risks.

- *Sub-distributors*. Our distributors may engage sub-distributors within their respective designated sales territories to help them market and sell our baijiu products. We do not have any direct contractual relationships with a majority of these sub-distributors, whereas we enter into tripartite distribution agreements with selected sub-distributors and the relevant distribution partners. In either case, nevertheless, the sub-distributors procure our baijiu products from the respective distribution partners, rather than us, and accordingly, payments of product prices are made by the sub-distributors to the distribution partners. In general, our distribution partners are responsible for making sure their respective distribution partners comply with our sales policies, despite our contractual relationships with the selected sub-distributors, and we do not routinely monitor the sales performance or compliance of the sub-distributors. As a result, there can be no assurance that the sub-distributors will always comply with our sales policies, or at all. In the event that any sub-distributor conducts any wrongdoings, our brand reputation and business may be adversely affected. See also "Business — Sales and Distribution — Distributors — Sub-distributors" for additional information.

In addition, our business and our future growth, are in part dependent on the ability of our distributors to maintain and expand their distribution coverage. We may not be able to effectively maintain our business relationship with distributors, or manage our distribution network, which could adversely affect our brand, results of operations and financial condition.

Our business and financial performance may be adversely affected by the uncertainties around macro-economic conditions in China, or a downturn, any adverse developments or changes in regulatory environment in China's baijiu industry.

Our business is affected by the economic conditions in China. Baijiu consumption in China is closely linked to general economic conditions. Levels of consumption tend to rise during periods when per capita income and disposable income increase, and vice versa. Any adverse development of China's macro-economy, whether as a result of a recession, credit and capital markets volatility, economic or financial crises, COVID-19 pandemic or otherwise, could result in declining per capita income and disposable income, which in turn, may cause consumers' demand for our products or baijiu in general to continue to decrease, or force us to reduce the price of our baijiu products. As a result, our business, profitability, results of operations and financial condition may be materially adversely affected.

In addition, our operational and financial performance is subject to upturns and downturns of the baijiu market in China. China's baijiu market may be adversely affected by various factors including macro-economic conditions, demand and supply for baijiu products, change of consumers' preferences, and changes in regulatory landscape in China. Many of these factors are beyond our control. A downturn, any adverse developments, or changes in regulatory environment in China's baijiu industry may result in a reduction in the demand for our products and diminish our ability to generate profits.

In particular, the PRC government may from time to time promulgate administrative regulations and policies, or launch government initiatives and campaigns to regulate the baijiu industry, or otherwise adversely affect the business and financial performance of baijiu companies. The implementation of "Sangong Consumption Policy" (三公消費政策), for example, has resulted in a decrease in baijiu consumption by government officials through restricting government departments from incurring high administrative expenses for official receptions, purchases, and business trips. Additional regulatory restrictions on baijiu industry, such as policies to regulate the sales of luxury goods, heighten restrictions to alcohol marketing, or heavier tax imposed on baijiu products, and/or restrictions on the financing activities of baijiu companies, if promulgated or imposed, could affect the overall sentiment of China's baijiu industry, adversely impact consumers' baijiu consumption, or adversely affect the business, financing capabilities and prospects of baijiu companies. Any of the above may in turn have an adverse impact on our business and financial performance.

Any product quality issue could materially and adversely affect our results of operations.

We believe that product quality is critical to our success. Our quality control systems primarily consist of quality control measures for supply chain management, production and logistics and warehousing. See "Business — Quality Control" for details. The effectiveness of our quality control systems, including maintaining consistent product quality, depends on a number of factors, including the design of our quality control systems and our ability to ensure our employees and other third parties involved in our business activities to comply with our quality control policies and procedures. Despite the precaution we take, there can be no assurance that our quality control systems will be effective in all times, or at all. Any product quality issue resulted from failure of our quality control systems or other reasons could expose us to product liability claims, negative publicity, government scrutiny, investigation or intervention, administrative actions and product recalls or returns, which could materially and adversely affect our brand, reputation, results of operations, financial condition and business prospects.

We are subject to the risk of product contamination and quality deterioration, which is inherent to the baijiu industry. For example, the quality and availability of certain agricultural commodities necessary for our products may be affected by climate conditions. The quality and supply of water required to produce our products may also be affected by climate change. Any contamination or deterioration in our baijiu products, through improper handling, outbreak of diseases, tampering or otherwise, may result in them being found unsafe for production and consumption, as the case may be. This could in turn lead to substantial delays in our baijiu-making process or delivery of our baijiu products to our customers, a recall of our baijiu products, a loss in revenue and/or payment of compensation to our customers for delays and recalls. In the event that contamination or a defect occurs, any damages we may suffer could adversely impact our business, results of operations and financial condition.

In addition, the quality of the products or services provided by our suppliers or service providers is subject to factors beyond our control, including the effectiveness and the efficiency of their quality control system, among others. There can be no assurance that our suppliers or service providers may always be able to adopt appropriate quality control systems and meet our stringent quality control requirements in respect of the products or services they provide. Any failure of our suppliers or service providers to provide satisfactory products or services could delay our baijiu-making process and delivery of our baijiu products, harm our reputation and adversely impact our operations. See " — We use third-party suppliers, service providers and other business partners to provide products and services to us and to our customers."

Changes to the pricing of our products could adversely affect our business, financial condition, results of operations and prospects.

The pricing of our products is based on multiple factors, including, without limitation, brand positioning, cost of production, market demand and competition. Benefiting from our deep engagement with our consumers and our consumer insights, we believe we are in a good position to analyze consumers' preferences and demand, evaluate the market acceptance and potential sales volume of our products, which enables us to price our products at a competitive rate. Nevertheless, we cannot assure you that we will adopt a competitive pricing strategy for our products at all times. If we price our products too low, our profit margin will suffer. If we price our products higher than consumers' expected price, we may not achieve the sales volume we expect, in which case revenue from the corresponding products may be negatively affected.

Even if we properly price our products, we may offer discounts from time to time to promote our brand awareness and to drive sales volume. Some customers may purchase our products in bulk when we offer discounted or promotional prices. We may also need to adjust our sales strategies to sell excess inventory in the event that we fail to accurately predict the market demand. Any such price cuts may not lead to the sales volume we expect and may negatively impact the demand for our products, in which case our revenue could be negatively impacted. Furthermore, although we prohibit our distributors to take any action which might materially disrupt retail prices of our products, there can be no assurance they will always comply with such requirement. The market and pricing for our products may be interrupted by the secondary sale pricing strategies adopted by such distributors and the possible negative shopping experience they provide to consumers, which may negatively impact our brand image and our business.

Changes in the availability and price of raw materials could have an adverse effect on our results of operations.

A major portion of our cost of sales is related to raw materials that we use to produce our baijiu products, such as sorghum, wheat, rice, glasses, labels, metal and plastic closures, and cardboard products. In 2020, 2021 and 2022, cost of production materials amounted to RMB496.4 million, RMB989.5 million and RMB1,125.8 million, representing 43.3%, 41.7% and 43.0% of our total cost of sales for the same periods.

The supply and price of raw materials used for the production of our baijiu products can be affected by a number of factors beyond our control, including the level of crop production across China, supply and demand dynamics, speculative movements in the raw materials market, governmental regulations and legislation affecting agriculture, trade agreements among producing and consuming nations, adverse weather conditions, natural disasters, economic factors affecting planting decisions, political developments, various plant diseases and pests. For example, we use red tassel sorghum planted in Guizhou to produce certain of our sauce aroma baijiu products. Any shortage in the supply of red tassel sorghum in Guizhou or any fluctuation in its price could increase our costs, reduce the production volume of our relevant sauce aroma baijiu products, and adversely affect our results of operations.

We cannot predict future availability or price of the raw materials required for our products. The markets in certain raw materials or commodities have experienced and may in the future experience shortages and significant price fluctuations. For example, the average price of sorghum rose from RMB1,751 per ton in 2017 to RMB2,646 per ton in 2021, and the average prices of rice and wheat also rose in 2020. See "Industry Overview — Major Raw Material and Cost Analysis." The foregoing may affect the price and availability of ingredients that we use to manufacture our baijiu products, as well as the bottles and cardboards in which our baijiu products are packaged. We may not be able to increase our prices to offset these increased costs without suffering reduced volume, revenue and operating income. To the extent we fail to adequately manage the risks inherent in such volatility, our results of operations may be adversely impacted.

Any failure to successfully develop, launch and promote new products may adversely affect our business development plans and profitability.

The choices and preferences of consumers may be influenced by new products that appear in the market. Accordingly, we have been continuously developing, launching and promoting new baijiu products to maintain our competitiveness. To support our product development plans, we need to devote significant resources in researching and developing baijiu products and recruit production and marketing professionals that are suitable for our products. Moreover, we need to select suitable suppliers of raw materials and packaging materials, logistics service providers and distributors. All these tasks involve risks, and require substantial planning, effective execution and significant expenditures. We also cannot assure you that our new products will be able to generate positive cash flows or become profitable within a short period of time or at all. If we fail to bring new products to the market in a cost-effective manner, our profitability, results of operations and business prospects may be adversely affected.

We are subject to extensive regulatory permits, certificates and approvals for our owned properties in China.

We are required under applicable PRC laws and regulations to obtain various permits, certificates and approvals from relevant governmental authorities for the properties that we own and use in China. As of the Latest Practicable Date, we had not obtained the building ownership certificates for four of our 218 buildings with an aggregate gross floor area of approximately 12,118 square meters. For one of those four buildings, we had not obtained the building ownership certificate since we had not completed the required as-built acceptance filing (竣工驗收備案) and certain related procedures for this building, and for the remaining three buildings, we had completed the as-built acceptance filings and were in the process of applying for the building ownership certificates. Our PRC Legal Advisor has advised us that, with respect to the building that was put into use before we complete the required as-built acceptance filing, we may be ordered to take remedial measures, and the relevant governmental authorities may impose fines on us. As advised by our PRC Legal Advisor, the maximum amount of fines that we may be subject to for such building would be approximately RMB1 million. See "Business — Properties — Owned Properties — Buildings in Use" for details.

As a consequence of the foregoing, our rights to these buildings may be limited or challenged by relevant governmental authorities or third parties. We may also be subject to administrative fines or other penalties due to the lack of the relevant regulatory permits, certificates and approvals, which may disrupt our normal business operations, damage our reputation and result in significant incremental costs. In the event we lose the rights to any of our buildings, our use of such buildings may be limited, or we may be forced to relocate our production facilities, which may materially adversely impact our business, expansion plans, prospects and results of operations. As of the Latest Practicable Date, we were in the process of applying for the outstanding permits, certificates and approvals. However, there is no assurance that we will be able to obtain such permits, certificates and approvals in a timely manner, or at all. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We are subject to various risks relating to third-party settlements and use of personal accounts.

During the Track Record Period, certain distributors, individual customers and suppliers settled transactions with our Group through the accounts of third parties designated by them (the "**Third-party Settlement Arrangement**"). In 2020, 2021 and 2022, the aggregate amount of payment from designated third parties to our Group represented approximately 22.1%, 24.4% and 10.9% of the total payments received from all distributors and individual customers, respectively. During the same periods, the aggregate amount of payment made from our Group to designated third parties represented approximately 12.1%, 20.5% and nil of the total payments made to all suppliers, respectively. As of June 30, 2022, our Group had ceased all Third-party Settlement Arrangement to the extent practicable. We are subject to various risks relating to such Third-party Settlement Arrangements during the Track Record Period, such as (i) possible claims from third-party payors for return of funds as they were not contractually indebted to us and possible claims from liquidators of third-party payors; (ii) possible claims from suppliers that they did not receive the payments we made to their designated third parties; and (iii) potential money laundering risks as we have limited knowledge about the source and purpose of the funds utilized by the third-party payors. In the event of any claims from suppliers, third-party payors or their liquidators, or legal proceedings (whether civil or criminal) instituted or brought against us to demand return of the relevant payment or for violation or non-compliance of laws and regulations, we will have to spend significant financial and managerial resources to defend against such claims and legal proceedings, and we may be forced to comply with the court ruling and return the payment for the products that we sold. Our financial condition and results of operations may as a result be adversely affected.

During the Track Record Period, our Group also used personal bank, Weixin and Alipay accounts (the "**Personal Accounts**") of our employees in the daily operations in order to facilitate funds transfer in a more flexible and convenient manner. In 2020, 2021 and 2022, funds received through the Personal Accounts represents 8.6%, 7.0% and nil, respectively, of total funds received from all accounts of our Group, while funds paid out of the Personal Accounts represents 7.9%, 7.7% and nil, respectively, of total funds paid out of all accounts of our Group for the same periods. As of December 31, 2021, our Group had ceased the use of all Personal Accounts. However, we cannot assure you that we will not be subject to fines or other penalties or legal consequences, or investigation or enquiry by any governmental authorities in terms of anti-money laundering due to our prior use of Personal Accounts for the settlement of corporate funds, which may materially and adversely affect our business, financial condition and result of operations. As advised by our PRC Legal Advisor, the potential maximum penalties for us with respect to the use of the Personal Accounts are approximately RMB90,000. See "Business — Risk Management and Internal Control — Control of Third-party Settlement Arrangement" and "Business — Risk Management and Internal Control — Management of Personal Accounts" for details.

We recorded net current liabilities and total equity-deficit in the past.

We recorded net current liabilities of RMB145.8 million as of December 31, 2021, attributable primarily to the decrease in amounts due from related parties, which was offset by the distributions/dividends we declared in 2021 in an aggregate amount of RMB1,886.1 million. We recorded total equity-deficit of RMB6,814.1 million and RMB3,815.2 million as of December 31, 2021 and 2022, respectively, primarily due to financial instruments issued to an investor. As of December 31, 2021 and 2022, we recorded financial instruments issued to an investor of RMB8,756.9 million and RMB10,253.8 million as non-current liabilities, respectively. Our financial instruments issued to an investor primarily represent the Series A Preferred Shares and warrants issued to Zest Holdings for its investment as it was granted the right to require our Company to redeem all or a portion of the preferred shares they held if the Listing is not consummated within a certain period. Our financial instruments issued to an investor will be re-designated and reclassified from liabilities to equity as a result of the automatic conversion into ordinary shares upon the Listing, after which we expect that we would return to a net assets position. See "Financial Information — Discussion of Certain Key Items From Our Consolidated Statements of Financial Position — Financial Instruments Issued to An Investor" for details.

Net current liabilities may expose us to certain liquidity risks and may constrain our operational flexibility, as well as adversely affect our ability to expand our business. Our future liquidity, the payment of trade and other payables (as and when they become due), will primarily depend on our ability to maintain adequate cash inflows from our operating activities and adequate external financing, which will be affected by our future operating performance, prevailing economic conditions, our financial, business and other factors, many of which are beyond our control. If we do not have sufficient working capital to meet future financial needs, we may need to resort to external funding. Our inability to obtain additional external borrowings on a timely basis and on acceptable terms, or at all, may force us to abandon our development and expansion plans, and our businesses, financial positions and results of operation may be materially and adversely affected.

We recorded net operating cash outflow historically and there can be no assurance that we will not have net cash outflow in the future.

We recorded net cash used in operating activities of RMB710.6 million for the year ended December 31, 2022. Throughout the Track Record Period, the major drivers behind the fluctuations in cash (used in)/generated from operations were (i) changes in working capital that negatively affected cash flow such as an increase in inventories, a decrease in trade payables, a decrease in other payables and accruals and (ii) an increase in income tax paid, partially offset by changes in working capital that positively affected cash flow. For a more comprehensive discussion of our liquidity and capital resources, see "Financial Information — Liquidity and Capital Resources — Cash Flow Analysis — Net Cash (Used in)/Generated from Operating Activities" for further details.

We cannot guarantee that our prospective business activities and/or other matter beyond our control, such as market competition and changes to the macroeconomic environment, will not adversely affect our operating cash flow and lead to net operating cash outflows in the future. If we encounter long-term and continuous net operating cash outflow in the future, we may not have sufficient working capital to cover our operating costs, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Fair value changes in our financial instruments issued to an investor and the related valuation uncertainty may materially affect our financial condition and results of operations.

The fair value change of our financial instruments issued to an investor may materially affect our financial condition and results of operations. Our financial instruments issued to an investor primarily represent the Series A Preferred Shares and warrants issued to Zest Holdings in connection with the Pre-IPO Investments. We measure the fair value of the financial instruments issued to an investor regularly and record profit or loss to reflect the fair value changes. We use significant unobservable inputs, such as risk free interest rate and expected volatility, in valuing our financial instruments issued to an investor. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. As of December 31, 2020, 2021 and 2022, we recorded financial instruments issued to an investor of nil, RMB8,756.9 million and RMB10,253.8 million, respectively. In 2020, 2021 and 2022, we recorded loss from changes in fair value in financial instruments issued to an investor of nil, RMB21.6 million and RMB130.7 million, respectively. For details, see Note 23 to the Accountants' Report in Appendix I to this prospectus. Upon the Listing, all such financial instruments will be converted into ordinary shares, and accordingly, the related liability will be transferred from financial liabilities to equity and we will no longer recognize any change in the fair value in respect of them.

For certain baijiu brands, we derived a substantial portion of revenue from selected geographic regions in China.

During the Track Record Period, for certain baijiu brands, we derived a substantial portion of revenue from selected geographic regions in China. Specifically, we derived a majority of our revenue for *Li Du* from

Jiangxi and we generated substantially all of our revenue for *Xiang Jiao* and *Kai Kou Xiao* from Hunan during the Track Record Period.

We plan to continue to execute our business strategies to solidify our leading positions in these sales markets and expand footprints in other geographic regions across China. Therefore, we expect these sales markets to continue to contribute a considerable portion of our revenue. There can be no assurance that consumers' demand for our products or baijiu in general in these sales markets would not decline. Our success will depend on our ability to adapt to changing preferences of the baijiu consumption in these sales markets, to develop new baijiu products and optimize existing baijiu products to accommodate these changes, and to increase brand awareness in these sales markets. Furthermore, the demand for baijiu is dependent on the disposable income of local residents in these sales markets. Any material decline in the economic conditions may result in a decline in the sales of our baijiu products and in our revenue. Such demand may also be affected by other factors beyond our control, for example, if the local authorities adopt regulations that place additional restrictions or limitations on our industry.

Our results of operations could be materially harmed if we are unable to adequately manage our inventory.

As of December 31, 2020, 2021 and 2022, we had inventories of RMB1,736.9 million, RMB3,649.3 million and RMB5,138.5 million, respectively. Our inventories consist primarily of (i) raw materials, mainly including grains used to produce our baijiu, and packaging materials, (ii) work-in-progress, mainly including our base liquor, and (iii) finished baijiu products that we or our distributors hold for sales. See "Financial Information — Discussion of Certain Key Items From Our Consolidated Statements of Financial Position — Inventories."

The majority of our inventories is base liquor. As a key step of baijiu production, the base liquor needs to be stored, also known as aging, an indispensable process especially in the production of high quality sauce aroma baijiu. For details, see "Business — Production Process — Aging." Therefore, we maintained a relatively large amount of inventories in storage with relatively long inventory turnover days during the Track Record Period, being 517.0 days in 2020, 414.4 days in 2021 and 612.8 days in 2022. According to Frost & Sullivan, the inventory turnover days of baijiu companies in China usually range from 400 days to 1,800 days and our inventory turnover days are generally in line with the industry norm. It may be difficult to accurately forecast demand and determine appropriate levels of inventory we maintain. Any change in consumer demand for our products or the occurrences of catastrophic events may have an adverse impact on our product sales, which may in turn lead to decline in inventory value or inventory write-off. In the case of overestimation of consumer demand, we may be subject to overstock, resale of the inventories at less favorable terms, or even write-downs of inventories. In the case of underestimation of consumer demand, we may not be able to maximize our revenue. In addition, if we are required to lower sale prices in order to reduce inventory level, our profit margins might be negatively affected. Any of the above may materially and adversely affect our business, financial condition, results of operations and prospects.

We may not be able to fulfill our obligation in respect of receipts in advance from customers.

Our receipts in advance from customers amounted to RMB923.5 million, RMB1,817.4 million and RMB1,791.3 million as of December 31, 2020, 2021 and 2022, respectively. Our receipts in advance from customers consist mainly of advance payments from distributors to purchase our baijiu products, as well as a small portion of performance deposits we received from distributors pursuant to our distribution arrangements. Pursuant to our distribution agreements, we are obligated to arrange delivery of our baijiu products within seven days of receipt of advance payment from the distributors, and the performance deposits will be refunded to our distributors, net of any damages and fees due to us, at the time of contract termination. There is no assurance that we will be able to fulfill our obligations in respect of receipts in advance primarily because the completion of existing and future purchase orders from our distributors is subject to various factors, such as the production and supply of our baijiu products, and the product delivery by logistics service providers. Any failure to fulfill our obligation in respect of receipts in advance from customers may negatively affect our relationship with distributors, our results of operations, liquidity and financial position.

We are exposed to risks in relation to potential impairment of prepayments, deposits and other receivables.

As of December 31, 2020, 2021 and 2022, our prepayments, deposits and other receivables was RMB28.8 million, RMB55.6 million and RMB130.4 million, respectively. Our prepayments consist of (i) prepayments for purchase of raw materials, (ii) prepayments for operating expenses incurred in connection with our marketing and promotion activities, (iii) prepayments for costs incurred in connection with the Listing, (iv) value-added tax recoverable, and (v) other prepayments. Our other receivables consist of (i) advances to staff, primarily representing petty cash advanced to our various internal corporate functions, (ii) deposits paid to suppliers, primarily relating to procurement of raw materials from suppliers, (iii) deposits paid to lessors relating to our leased warehouses, and (iv) others. Our prepayments, deposits and other receivables are generally expected to be recovered or recognized as expenses within one year and therefore are all classified as current assets. For details, see "Financial Information — Discussion of Certain Key Items from Our Consolidated Statements of Financial Position." In the event that counterparties fail to perform their obligations in a timely manner, we may incur impairment losses of our prepayments, deposits and other receivables and our results of operations and financial condition could be materially and adversely affected.

We may be exposed to credit risks resulting from delays and/or defaults in payments by our customers, which would adversely affect our business, financial condition and results of operations.

Our credit risk is primarily attributable to trade and bills receivables. As of December 31, 2020, 2021 and 2022, our trade and bill receivables amounted to RMB74.2 million, RMB64.7 million and RMB179.8 million, respectively. Our trade and bills receivables are in connection with outstanding amounts due from a small number of customers and bank acceptance notes received from such customers, which are generally due for settlement within 30 days from the date of billing. For further details, see "Financial Information — Discussion of Certain Key Items from Our Consolidated Statements of Financial Position — Trade and Bills Receivables." If our customers delay or default in their payments to us, we may have to make impairment provisions or write off the relevant receivables and hence our liquidity may be adversely affected. This may in turn materially and adversely affect our business, financial condition and results of operations.

We may be subject to seasonal fluctuations in consumer demand.

We promote and sell our baijiu products primarily in China, and accordingly our results of operation may be subject to the seasonal consumption cycles in China. We typically experience higher products sales during holidays and festival seasons in a year, most notably around the Spring Festival and the Mid-Autumn Festival, when consumers tend to purchase more of our baijiu products for self-consumption and as celebration gifts. Our financial condition and results of operations in the future may continue to fluctuate throughout a year.

Baijiu products are subject to consumption tax and the changes of tax policy could have an adverse effect on our product prices, consumer demand and profitability.

According to the Interim Regulation of the PRC on Consumption Tax (《中華人民共和國消費稅暫行條例》), which was promulgated by the State Council on December 13, 1993 and amended on November 10, 2008, the applicable consumption tax rate of baijiu is 20% plus the fixed consumption tax (RMB 0.5/500g (or 500ml)). In 2009, the STA issued the Notice on Strengthening the Administration of the Collection of Alcohol Consumption Tax (《國家稅務總局關於加強白酒消費稅徵收管理的通知》) (State Tax Letter [2009] No. 380) and Administrative Measures for the Approval of the Minimum Taxable Price of Alcohol Consumption Tax (for Trial Implementation) (《白酒消費稅最低計稅價格核定管理辦法（試行）》). Accordingly, if the taxable price is lower than 70% of the external sales price (excluding value-added tax), the tax authority shall determine the lowest taxable price for consumption tax within the range between 50% and 70% of the external sales price, taking into account factors including production scale, liquor brand, and profitability. We incurred RMB378.0 million, RMB786.6 million and RMB913.5 million tax and surcharges in 2020, 2021 and 2022, respectively.

There can be no assurance that the consumption tax policies or other tax treatment applicable to us will not be modified, which, as a consequence, may impose heavier tax burden on our baijiu products and our Group. If we have to pass along such increased tax to our consumers by increasing product prices, consumers may switch to baijiu products of our competitors or other alcohol drinks. In addition, if we are not able to react to changes of tax policy in a timely manner, or at all, our business operations and financial results may be materially and adversely affected.

We are exposed to the risk of litigation, claims, disputes and regulatory compliance issues, which may cause us to pay significant damage compensations and incur other costs.

We may be subject to legal proceedings, claims and disputes from time to time in the ordinary course of our business, which could have a material adverse effect on our business, results of operations, and financial condition. Claims arising out of actual or alleged violations of law could be asserted against us by our consumers, our competitors, governmental authorities in civil or criminal investigations and proceedings, or other entities. These claims could be asserted under a variety of laws, including but not limited to product liability laws, consumer protection laws, intellectual property laws, and labor and employment laws. Given the inherent uncertainty of litigation, it is possible that we might incur liabilities as a consequence of the proceedings and claims brought against us, including those that are not currently believed by us to be reasonably possible.

Moreover, companies in the alcohol industry including our Company are, from time to time, exposed to law suits or compliance matters relating to alcohol advertising, alcohol abuse problems or health consequences from the excessive consumption of alcohol. If any of these types of litigation or non-compliance were to result in fines, damages or reputational damage to us or our brands, this could materially and adversely affect our financial condition and operating results.

We use third-party suppliers, service providers and other business partners to provide products and services to us and to our customers.

We work with our third-party suppliers, service providers and other business partners to conduct our business. Any interruptions to their operations, any failure of our suppliers to accommodate our fast growing business scale, any termination or suspension of our supply arrangements, any change in cooperation terms, the deterioration of cooperative relationships, or any disputes with these partners may materially and adversely affect our results of operations. For example, we partnered with third-party distilleries to produce base liquor for us during the Track Record Period. In 2020, 2021 and 2022, such collaborated distilleries provided us with approximately 7,404 tons, 20,546 tons and 7,817 tons of sauce aroma base liquor, respectively. Any failure of our suppliers to provide base liquor to us pursuant to the agreements could result in us being unable to produce a sufficient amount of baijiu products to meet customers' demand, which in turn, could damage our brand reputation and reduce our product sales. In addition, we cannot assure you that we would be able to find suitable replacement suppliers on commercially reasonable terms or a timely basis. If we could not solve the impact of the interruptions of operations of our third-party suppliers or service providers, our business operations and financial results may be materially and adversely affected.

Furthermore, our reputation and operation may be harmed by illegal or unsatisfactory actions taken or unsatisfactory performance by these partners that are outside of our control. For example, the failure of our raw material suppliers to ensure product quality or to comply with food safety or other laws and regulations, or damages or contamination of our baijiu products during the delivery to customers by our logistics service providers could lead to a delay in our baijiu-making process and the delivery of our baijiu products, interrupt our operations and result in claims against us. In the event that we become subject to claims caused by actions taken or unsatisfactory performance by these partners, we may attempt to seek compensation from the relevant partners. However, such compensation may be limited. If no claim can be asserted against a supplier, service provider or business partner, or amounts that we claim cannot be fully recovered from the supplier, service provider or business partner, we may be required to bear such losses and compensation at our own costs. This could have a material and adverse effect on our business, financial condition and results of operations.

Incidents involving counterfeiting, tampering, adulteration, contamination or mislabeling, as well as adverse public or medical opinions about the health effects of consuming our products, could harm our business.

Counterfeiting has been a problem in our industry. Such counterfeit products may be manufactured without proper licenses or approvals from us or manufactured without meeting the quality of our baijiu products. Counterfeit baijiu products are often sold at a lower price compared to authentic baijiu products. Any occurrence of counterfeiting or imitation could bring negative impacts on our reputation and the brand names of the baijiu products we sell and lead to a loss of consumer confidence. Furthermore, counterfeiting and imitation products could erode our sales volume and result in a reduction of our market share, a decline in our sales and profitability as well as an increase in our administrative and legal costs in respect of detection, prosecution and negotiation, any of which may have a material adverse effect on our business, prospects, reputations, financial condition and results of operations.

In addition, instances or reports, whether true or not, of food-safety issues, such as tampering, adulteration, contamination or mislabeling, either during growing, manufacturing, packaging, transportation, storing or preparation, employee hygiene and cleanliness failures or improper employee conduct, have in the past severely injured the reputations of companies in China's baijiu industry. Any report linking us to such instances could severely hurt our sales and could possibly lead to product liability claims and litigations. In addition, instances of food-safety issues, even those involving solely baijiu products of our competitors or of distributors or retailers (regardless of whether we use or have used those distributors or retailers), could, by resulting in negative publicity about us or the alcohol industry in general, adversely affect our sales on a regional or nationwide basis. A decrease in customer demand as a result of food-safety concerns or negative publicity, or as a result of product recalls or food safety claims or litigations, could materially harm our brand reputation, business and results of operations.

We could incur significant costs as a result of compliance with, and/or violations of or liabilities under, various regulations that govern our operations.

We are subject to various laws and regulations governing various aspects of our operations, including producing, marketing and advertising, environmental protection, workplace safety, transportation, distributorship, sales and data privacy. We may be subject to claims that we have not complied with existing laws and regulations, which could result in fines and penalties or loss of our operating licenses, which may have a material adverse impact on our ability to operate our businesses.

For example, we advertise our brands and products through various channels, which is subject to the applicable PRC laws and regulations. We may be scrutinized for the choice of certain words used in our advertising. If our employees or the third party service providers we engage fail to comply with such laws and regulations, or the relevant authorities, who have broad discretions in interpreting the laws and regulations, ultimately take a view that is inconsistent with our understanding in the process of administrative enforcement of the applicable PRC laws and regulations, we may be subject to potential risks and penalties. Also, pursuant to the Law of the PRC on Production Quality (《中華人民共和國產品質量法》), if our baijiu products cause property damage or personal injury, we as manufacturer and seller may be liable for such damage or injury so caused. In addition, the SAMR may be authorized by the Law of the PRC on the Protection of Consumers' Rights and Interests (《中華人民共和國消費者權益保護法》) to impose administrative penalties on us. Our Directors believe that any product liability claims against us, whether or not meritorious and disregarding the outcome, might have damaging impacts to our business and brand reputation. It may also damage the confidence of the public on our baijiu products, and may affect our established relationships and business dealings with our distributors, suppliers and other business partners. We may also incur significant legal and other costs in defending ourselves in these actions. We are also subject to various requirements and standards according to the Food Safety Law of the PRC (《中華人民共和國食品安全法》), if we fail to satisfy the requirements of food safety, we may receive the administrative penalties from the competent authority, and if any property or person damage is caused, we may be required to indemnify any loss and damages caused.

In addition, a company that uses an office in a location outside its corporate residence address to conduct business operation must register such office as a branch company or a subsidiary with the competent local authority. Historically, we did not register some of the locations outside of the corporate residence addresses as branch companies or subsidiaries. This was because, when we first tapped into a new geographic market, we sometimes assigned staff to preliminarily develop our local sales network and promote our brands so that we can rapidly ramp up our product sales once we set up a permanent branch company or subsidiary there, which is consistent with the industry norm as advised by Frost & Sullivan. Although we have not been subject to any query or investigation by any PRC governmental authorities regarding the absence of such registration, if the PRC regulatory authorities determine that we are in violation of the relevant laws and regulations, we may be subject to penalties, including fines, confiscation of income, and suspension of operation. The maximum amount of fines that we may be subject to for our failure to register branch companies or subsidiaries would be RMB7.14 million, as advised by our PRC Legal Advisor. We commenced to register branch companies and subsidiaries in locations in which we operate our business, and as of the Latest Practicable Date, branch companies or subsidiaries, as the case may be, had been established in major locations across China in which we operate our business. We have also enhanced our firm-wide internal control measures by requiring that our branch companies and subsidiaries be established in a timely manner in accordance with relevant regulatory requirements as we continue to expand our geographic footprints in China.

We may also be subject to new or modified laws and regulations. Breach of any of these laws or regulations can lead to significant fines and/or damage to our reputation, as well as significantly restrict our ability to deliver our production and growth plans.

If we fail to conduct branding and marketing activities cost-effectively, our business, financial condition and results of operations may be materially and adversely affected.

Our ability to cost-effectively promote and market our products is crucial to driving revenue growth and achieving higher profitability. We have invested in branding and marketing activities to acquire and retain consumers. For example, we create immersive experience in our distilleries and featured stores to promote our brand culture and expand our consumer base. We also place advertisements across media channels to drive brand awareness and market acceptance. We incurred advertisement expenses of RMB241.7 million, RMB669.2 million and RMB665.6 million in 2020, 2021 and 2022, respectively. We expect to continue to invest significantly to acquire new consumers and retain existing ones, but there is no assurance that new consumers will stay with us, or the net revenue from new consumers we acquire will exceed the cost of acquiring those consumers.

In addition, if our existing consumers no longer find our baijiu products appealing or are unsatisfied with our services, or if our competitors offer more attractive baijiu products, prices or better consumer services, our existing consumers may lose interest in us, decrease their purchases or even stop purchasing our products. If we are unable to retain our existing consumers or to acquire new consumers in a cost-effective manner, our revenue may decrease and our results of operations will be adversely affected.

We may be unable to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, suppliers, distributors or other third parties.

We may be exposed to fraud, bribery or other misconduct committed by our employees, suppliers, distributors or any other third parties that could subject us to financial losses and sanctions imposed by governmental authorities, which may adversely affect our reputation. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any instances of fraud, bribery, and other misconduct involving employees, suppliers, distributors and other third parties that had a material and adverse impact on our business and results of operations. However, we cannot assure you that there will not be any such instances in future and we may be unable to prevent, detect or deter all such instances of misconduct. Any such misconduct committed against our interests, which may include undetected past acts or future acts, may have a material and adverse effect on our business and results of operations.

Discontinuation of any of the government grants or preferential tax treatments or imposition of any additional taxes and surcharges could adversely affect our financial condition and results of operations.

Our government grants comprise subsidies and benefits received from local governments in China. There are no unfulfilled conditions or contingencies relating to these grants. In 2020, 2021 and 2022, our government grants amounted to RMB22.7 million, RMB21.2 million and RMB20.4 million, respectively. We cannot assure you that we will continue to be eligible to receive such government grants or that the amount of such grants will not be reduced in the future. Our ability to continue to enjoy government grants is subject to changes in national or local policies, and may be affected by the termination of, or amendments to, such policies for any number of reasons, including those beyond our control. Any decrease in or termination of such government grants in the future may have an adverse effect on our financial condition, results of operations and prospects.

Pursuant to the Great Western Development policies, our subsidiary Tibet Xiangjiao established in the western region is eligible for a preferential Corporate Income Tax ("**CIT**") tax rate of 15%. Except for the preferential treatments available to certain subsidiaries, other subsidiaries established in China are subject to the PRC CIT rate of 25% during the Track Record Period.

Preferential tax treatments and incentives granted to us by PRC governmental authorities are subject to review and renewal and may be adjusted or revoked at any time in the future. We cannot guarantee you that the preferential tax treatments and incentives to which our PRC subsidiaries are currently entitled would be kept valid or successfully renewed. There can be no assurance that the local tax authorities will not, in the future, change their position and discontinue any of our current tax treatments, potentially with retrospective effect. The discontinuation of any of our current tax treatments and imposition of any additional taxes and surcharges could materially increase our tax obligations and adversely impact our net income.

We may be subject to additional contributions of social insurance and housing provident fund and late payments and fines imposed by relevant governmental authorities.

During the Track Record Period, some of our PRC subsidiaries failed to complete the registration of social insurance and housing provident fund within the required timeframe, and we had not made social insurance and housing provident fund contributions for some of our employees in full. In 2020, 2021 and 2022, the shortfall of social insurance and housing provident fund contributions amounted to approximately RMB2.5 million, RMB15.7 million and RMB14.7 million, respectively. In addition, we engage third-party human resources agencies to pay social insurance and housing provident funds for some of our employees. Any failure to make such contribution by these third-party agents may directly expose us to penalties imposed by the local authorities and/or legal claims raised by our employees. As of the Latest Practicable Date, we had not received any notice from the relevant governmental authorities or any claim or request from our employees in this regard. For details, see "Business — Legal Proceedings and Compliance."

However, we cannot assure you that the relevant governmental authorities will not require us to pay the outstanding amount and impose late fees or fines on us. If we are otherwise subject to investigations related to non-compliance with labor laws and are imposed severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

We may not be able to fully control our leasehold interest in these premises, or renew our current leases or locate desirable alternatives for our leased premises.

We lease properties mainly for warehousing and office space. Certain lessors have not provided us with relevant title ownership certificates or proof of authorization of sublease for our leased properties. In addition, some of our leased properties are located on allocated land. As a result, there is a risk that such lessors may not have the right to lease such properties to us and we may face challenges from the property owners or other third parties regarding our right to occupy and use the premises.

In addition, we may not be able to extend or renew such leases on commercially reasonable terms, if at all. For instance, we compete with other businesses for premises at certain locations of desirable sizes. Rental payments may significantly increase as a result of the high demand for the leased properties. Moreover, we may not be able to extend or renew such leases upon expiration of the current term and may therefore be forced to relocate the affected operations. This could disrupt our operations and result in significant relocation expenses. We may not be able to locate desirable alternative sites for our warehouses or offices. For the leased sites used as the registered address of our PRC subsidiaries, we may face the risk of being included in the list of enterprises with abnormal business operations if we fail to extend such leases or relocate the registered address and file such leases with the local authorities. The occurrence of such events could materially and adversely affect our business, financial condition, results of operations and prospects. For details, see “Business — Properties — Leased Properties — Title Defects.”

Under PRC law, all lease agreements are required to be registered with the local housing authorities. However, the enforcement of this legal requirement varies depending on the local regulations and practices. Although failure to do so does not in itself invalidate the leases, the lessees may not be able to defend these leases against bona fide third parties and may also be exposed to potential fines if they fail to rectify such non-compliance within the prescribed time frame after receiving notice from the relevant PRC government authorities. The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority. As advised by our PRC Legal Advisor, the aggregate amount of maximum fine for our unregistered leases is approximately RMB380,000. The lease agreements of some of our leased properties have not been registered and filed with the competent PRC government authorities. We cannot assure you that the lessors will cooperate and complete the registration in a timely manner once we are required to do so. In the event that any fine is imposed on us for our failure to register our lease agreements, we may not be able to recover such losses from the lessors. For details, see “Business — Properties — Leased Properties — Lease Registration.”

We may not be able to retain or promptly recruit senior management members or other key personnel required for our operations.

Our current business performance and future success depend substantially on our senior management members, including Mr. Wu Xiangdong, our founder and Chairman, our executive Directors and other key personnel with industry expertise, know-how or experience in areas such as product development, production, sales and marketing, financial management, human resources or risk management. Any loss of such personnel could materially and adversely affect our ability to sustain and develop our business. Moreover, we cannot assure you that our key personnel will not join a competitor or form a competing business or will follow the terms and conditions of their employment contracts. As competition for talents such as skilled technical personnel and experienced management is fierce in our industry, any loss of key personnel or failure to promptly recruit such personnel for our future business development may adversely affect our business.

We may not be able to protect our intellectual property rights, and our ability to compete effectively may be harmed if our intellectual property rights are infringed by third parties.

Our future success depends significantly on our ability to protect our current and future brands and products and to defend our intellectual property rights, including trademarks, patents, registered designs, copyrights and domain names. We have been granted a number of trademark registrations and patents covering our brands and products and have filed, and expect to continue to file, trademark and patent applications seeking to protect newly developed brands and products. We cannot be sure that trademark and patent registrations will be issued with respect to any of our applications. There is also a risk that we could, by omission, fail to renew a trademark or patent on a timely basis or that our competitors will challenge, invalidate or circumvent any existing or future trademarks and patents issued to us.

We cannot be certain that our actions to protect our portfolio of intellectual property rights (including patent, trademark, copyrights and domain names) will be sufficient or that third parties will not infringe upon or misappropriate proprietary rights. It is possible that any intellectual property rights held by us may be invalidated, circumvented or challenged. If we are unable to protect our proprietary rights against infringement or misappropriation, it could have a material adverse effect on our business, results of operations, cash flows or financial condition and, in particular, on our ability to develop our business.

We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate intellectual property rights held by third parties. We have been and in the future may be, subject to legal proceedings and claims relating to the intellectual property rights of others. There could also be existing intellectual property of which we are not aware that our products may inadvertently infringe. We cannot assure you that holders of intellectual property purportedly relating to some aspects of our business, if any such holders exist, would not seek to enforce such intellectual property against us in China or any other jurisdictions. If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. In addition, we may incur significant expenses, and may be forced to divert management's time and other resources from our business and operations to defend against these infringement claims, regardless of their merits. Successful infringement or licensing claims made against us may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question, and our business, financial position and results of operations could be materially and adversely affected.

Failure to provide safe working environments and comply with associated government regulation may harm our business.

We should attach great importance to workplace safety during production processes. There are many safety risks including dust fire and dust inhalation, risks including hits by bridge crane and toxic hazard under fermentation pit in the fermentation and distillation process, fire hazard and risk of mechanical injury in the storage, blending and bottling process, etc. We are subject to various regulations, particularly in relation to environmental and workplace safety issues, labor and human rights and local work conditions. Any failure to provide safe environments for our workforce, third party contractors and the public while at our facilities or during the transportation of our products, could lead to injuries, loss of life or environmental damage. Negative publicity in this regard that materially damages the reputation of one or more of our brands could have an adverse effect on the value of that brand and subsequent revenue from that brand or business, which could adversely impact our business, results of operations, cash flows and financial condition.

Information technology failures and any failure to comply with data privacy, protection and information security laws could damage our reputation and we could suffer a loss of revenue, incur substantial additional costs and become subject to litigation and regulatory scrutiny.

We rely on information technology systems and network infrastructure to process, transmit, store and monitor the daily operations and to collect accurate up-to-date operating data, including customers' personal information. We engage in e-commerce for several brands we operate, which includes direct sales to some customers. Any damage or failure of our computer systems or network infrastructure that causes an interruption or inaccuracies in our operations could have a material adverse effect on our businesses and results of operation.

Our system receives certain necessary personal information about our customers when they place orders, primarily including nick name, telephone number and address of them. Due to the fact that the methods used to gain unauthorized access to or sabotage networks are constantly evolving and may not be identified before an attack is conducted against us or our third-party service providers, we may be unable to detect or enforce sufficient countermeasures against these threats. If we are unable to prevent these attacks and security vulnerabilities, we risk considerable legal and financial responsibility, damage to our image, and potential missed revenue and consumer frustration. We may lack the expertise and technological sophistication necessary to predict and deter rapidly changing cyber-attack forms. Actual or planned attacks and threats can result in substantially increased costs. In addition, if our network security is compromised, and such information is stolen or obtained by unauthorized persons or used inappropriately, we may become subject to litigation brought by customers and related institutions. Any such proceedings could distract our management from running our business, cause us to incur significant unplanned losses and expenses, and negatively affect consumer perception of our brand.

Furthermore, the PRC laws and regulations concerning personal data protection are subject to changes and updates from time to time, such as the PRC Civil Law (《中華人民共和國民法典》), the PRC Cyber Security Law (《中華人民共和國網絡安全法》), the PRC Data Security Law (《中華人民共和國數據安全法》), and the Measures for Cybersecurity Review (《網絡安全審查辦法》) (the "**Cybersecurity Review Measures**"). See "Regulatory Overview — Regulations Related to Information Security and Privacy

Protection" for details. Complying with new laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business. Any failure to comply with all applicable data privacy and protection laws and regulations, may result in negative publicity and legal proceedings or regulatory actions against us, and may subject us to fines and damages, which could have a material adverse effect on our business and results of operations.

The Cybersecurity Review Measures provides that network platform operators with personal information of over one million users shall be subject to cybersecurity review before listing abroad (國外上市). A listing in Hong Kong is not treated as a listing abroad within the meaning of the Cybersecurity Review Measures. The Cybersecurity Review Measures further stipulates that critical information infrastructure operators that procure internet products and services, and network platform operators engaging in data processing activities, shall be subject to the cybersecurity review if their activities affect or may affect national security. In addition, the relevant government authorities may initiate the cybersecurity review against the relevant operators if the authorities believe that the network products or services or data processing activities of such operators affect or may affect national security. As of the Latest Practicable Date, we had not been notified by any authorities of being classified as a critical information infrastructure operator or being involved in any investigations on cyber security review made by the Cyberspace Administration of China (the "**CAC**").

On November 14, 2021, the CAC published the Administration Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the "**Draft Regulations on Cyber Data Security**"). See "Regulatory Overview — Regulations Related to Information Security and Privacy Protection" for details. As advised by our PRC Legal Advisor, if the Draft Regulations on Cyber Data Security are implemented in their current form, it will be applicable to the data processing activities of our PRC subsidiaries. We collect information from our customers for the purpose of delivering our products. As of the Latest Practicable Date, we had not been involved in any service, product or data processing activities that might give rise to national security risks based on the factors set out in Article 10 of the Cybersecurity Review Measures and have not been inquired, investigated, warned or penalized by any PRC authorities in this respect. Moreover, as of the Latest Practicable Date, we had not possessed personal information of over one million users. Based on the foregoing, our PRC Legal Advisor is of the view that, as of the Latest Practicable Date, the likelihood that our business operations and/or the proposed Listing give rise to national security risks which subject us to cybersecurity review under the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security is relatively low.

However, as of the Latest Practicable Date, the Draft Regulations on Cyber Data Security have not been formally adopted. Substantial uncertainties exist with respect to its enactment timetable, final content, interpretation and implementation. We cannot assure you that relevant governmental authorities will not promulgate or interpret the laws and regulations in ways that may negatively affect us. If our proposed listing or business activities are deemed to "affect or may affect national security," we may be required to apply for cybersecurity review, but there can be no assurance that we will be able to obtain approval from the regulatory authorities in a timely manner, or at all. As data protection laws and regulations increase in number and complexity, we cannot assure you that our data protection systems will be considered sufficient under all applicable laws and regulations due to factors including the uncertainty of the interpretation and implementation of these laws and regulations.

We may not have sufficient insurance coverage to cover our potential liability or losses.

We face various risks in connection with our business, and we may lack adequate insurance coverage to cover our potential liability or losses. Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies do in other more developed economies. We do not have any business liability or disruption insurance to cover our operations. We believe that the costs of insuring against these risks, and the difficulties associated with acquiring such insurances on commercially reasonable terms render these insurances impractical for our business. However, any uninsured occurrence may disrupt our business operations, expose us to liabilities, incur substantial costs and divert our resources, which could have an adverse effect on our results of operations, financial condition and cash flows.

Natural and other disasters could disrupt our operations.

Our business and operating results could be negatively impacted by natural, social, technical or physical risks such as a widespread health emergency (or concerns over the possibility of such an emergency), earthquakes, typhoons, flooding, fire, water scarcity, power loss, loss of water supply, telecommunications and information technology system failures, cyberattacks, political instability, military conflict and uncertainties arising from terrorist attacks, including a global economic slowdown, the economic consequences of any military action and associated political instability.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Changes in China's economic, political or social conditions or government policies could have an adverse effect on our business and operations.

Substantially all of our assets and operations are located in China and substantially all of our revenue is generated from China. Accordingly, our business, financial condition, results of operations and prospects may be influenced by political, economic and social conditions in China generally. China's food and beverage market in general is affected by macro-economic factors, including changes in international, national, regional and local economic conditions, employment levels, consumer demand and discretionary spending. The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over past decades, growth has been uneven, both geographically and among various sectors of the economy. Any adverse changes in economic conditions in China, in the policies of the Chinese government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and operating results, lead to a reduction in demand for our products and adversely affect our competitive position. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, in the past the Chinese government has implemented certain measures, including interest rate adjustment, to control the pace of economic growth. These measures may cause decreased economic activity, which in turn could lead to a reduction in demand for our products and consequently have a material adverse effect on our businesses, financial conditions and results of operations.

Uncertainties remain with respect to the PRC legal system.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value.

In late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protections afforded to various forms of foreign investments in China. However, recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of these laws and regulations involve uncertainties. Furthermore, the PRC legal system is based in part on government internal policies and rules and we may not be aware of our violation of such policies and rules until sometime after the violation.

In addition, administrative proceedings and judicial procedures in China may be protracted, which could result in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have discretion in interpreting and implementing statutory provisions and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings. These uncertainties may affect our judgment on the relevance of legal requirements and our ability to enforce our contractual rights or tort claims.

We may be required to obtain prior approval from the CSRC or complete filing procedures with the CSRC for the listing and trading of our Shares on the Hong Kong Stock Exchange.

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM, the SASAC, the STA, the SAIC, the CSRC, and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**"), which became effective on September 8, 2006, and amended on June 22, 2009. The M&A Rules include, among other things, provisions that purport to require that an offshore special purpose vehicle formed for the purpose of an overseas listing of securities in a PRC company obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. However, uncertainty remains regarding the scope and applicability of the M&A Rules to offshore special purpose vehicles.

On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》). These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. See the section headed "Regulatory Overview — Regulations on M&A and Overseas Listings" for details.

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Enterprises (《境內企業境外發行證券和上市管理試行辦法》) (the "**Trial Administrative Measures**") and five supporting guidelines, which has become effective on March 31, 2023. The Trial Administrative Measures, require, among others, that PRC domestic enterprises that seek to offer and list securities in overseas markets, either directly or indirectly, to file the required documents with the CSRC within three business days after its application for overseas listing is submitted. See "Regulatory Overview — Regulations on M&A and Overseas Listings." On the same date, the CSRC promulgated the Notice on the Arrangement for the Filing-based Administration of Overseas Securities Offering and Listing by Domestic Enterprises (《關於境內企業境外發行上市備案管理安排的通知》) (the "**Arrangement for Filing-based Administration**"). According to the Arrangement for Filing-based Administration, PRC domestic enterprises shall not be required to complete the filing procedures if all of the following conditions are met: (i) the application for indirect overseas offering or listing shall have been approved by the overseas regulatory authorities or the overseas stock exchanges (for example, a contemplated offering and/or listing in Hong Kong has passed the hearing) prior to the effective date of the Trial Administrative Measures; (ii) it is not required to re-perform the overseas regulatory procedures for overseas securities offering and listing; and (iii) such overseas securities offering or listing shall be completed before September 30, 2023. We have passed the hearing before March 31, 2023. Our PRC Legal Advisor is of the view that if there is no re-hearing required by the Stock Exchange and this Global Offering can be completed before September 30, 2023, we will not be required to file with the CSRC with respect to this Global Offering.

Furthermore, we cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements or restrictions on us or our financing activities. If it is determined in the future that approval from or filing with the CSRC or other regulatory authorities or other procedures are required, we may fail to obtain such approval, perform such filing procedures or meet such other requirements in a timely manner or at all. We may face sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or other government authorization, or perform filing procedures, for this Global Offering or our future financing activities, and these regulatory authorities may impose fines and penalties on us, limit our operating activities in the PRC, limit our ability to pay dividends outside of the PRC, delay or restrict the repatriation of the proceeds from the Global Offering into the PRC or take other actions to restrict our financing activities, which could have a material adverse effect on our business.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management named in the prospectus based on foreign laws.

We are a company incorporated under the laws of the Cayman Islands. We conduct substantially all of our operations in China, and substantially all of our assets are located in China. In addition, all our senior executive officers reside within China for a significant portion of the time and most are PRC nationals. As a result, it may be difficult for our Shareholders to effect service of process upon us or those persons inside China. In addition, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.

We are a Cayman Islands holding company and we rely principally on dividends and other distributions on equity from our PRC subsidiaries for our cash requirements, including for services of any debt we may incur.

Our PRC subsidiaries' ability to distribute dividends is based upon their distributable earnings. Current PRC regulations permit our PRC subsidiaries to pay dividends to their respective shareholders only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries are required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Where the aggregate balance of the statutory capital reserve is insufficient to make up for the losses in the previous year, PRC subsidiaries shall make up such losses using their profits of the current year before making contribution to the statutory capital reserve in accordance with applicable PRC regulations. The reserve, together with the registered capital, is not distributable as cash dividends. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any limitation on the ability of our PRC subsidiaries to distribute dividends or other payments to their respective shareholders could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends or otherwise fund and conduct our business.

The custodians or authorized users of our controlling non-tangible assets, including chops and seals, may fail to fulfill their responsibilities, or misappropriate or misuse these assets.

Under PRC law, legal documents for corporate transactions, including agreements and contracts are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with relevant PRC industry and commerce authorities.

In order to secure the use of our chops and seals, we have established internal control procedures and rules for using these chops and seals. In any event that the chops and seals are intended to be used, the responsible personnel will submit the application through our office automation system and the application will be verified and approved by authorized employees in accordance with our internal control procedures and rules. In addition, in order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to authorized employees. Although we monitor such authorized employees, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees could abuse their authority, for example, by entering into a contract not approved by us or seeking to gain control of one of our subsidiaries. If any employee obtains, misuses or misappropriates our chops and seals or other controlling non-tangible assets for whatever reason, we could experience disruption to our normal business operations, and we may have to take corporate or legal action, which could involve significant time and resources to resolve and divert management from our operations.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies may delay us from using the proceeds of this Offering, to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Under PRC laws and regulations, we are permitted to utilize the proceeds from this Offering to fund our PRC subsidiaries by making loans to or additional capital contributions to our PRC subsidiaries, subject to applicable government registration, statutory limitations on amount and approval requirements. Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration or filing with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises (the "**FIEs**") in China, capital contributions to our PRC subsidiaries are subject to the registration with the SAMR or its local counterpart and the necessary filings in the enterprise registration system and the National Enterprise Credit Information Publicity System as well as the registration with a local bank authorized by the SAFE.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), or SAFE Circular 19, which took effect as of June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of FIEs and allows FIEs to settle their foreign exchange capital at their discretion, but continues to prohibit FIEs from, including but not limited to, using the Renminbi fund converted from their foreign exchange capital for expenditure beyond their business scopes, providing entrusted loans or repaying loans between non-financial enterprises. The SAFE issued the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), or SAFE Circular 16, effective in June 2016. Pursuant to SAFE Circular 16, enterprises registered in China may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. SAFE Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on a self-discretionary basis which applies to all enterprises registered in China. SAFE Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC laws or regulations, while such converted Renminbi shall not be provided as loans to its non-affiliated entities, with the exception that such granting is expressly permitted in the business license. In January 2017, October 2019 and April 2020, SAFE further promulgated the Circular on Further Improving

Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》) (the "**SAFE Circular 3**"), the Circular on Further Promoting Cross-border Trade and Investment Facilitation (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》) (the "**SAFE Circular 28**") and the Circular of the State Administration of Foreign Exchange on Optimizing Foreign Exchange Management Service in Support of Foreign Business Development 《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》 (the "**SAFE Circular 8**"), respectively. Among others, SAFE Circular 28 relaxes prior restrictions and allows foreign-invested enterprises that do not have equity investments in their approved business scope to use their capital obtained from foreign exchange settlement to make domestic equity investments as long as the investments are real and in compliance with the foreign investment-related laws and regulations. SAFE Circular 3 stipulates several capital control measures with respect to the outbound remittance of profits from domestic entities to offshore entities while SAFE Circular 8 stipulates the reform of facilitating the payments of incomes under the capital accounts shall be promoted nationwide. For further information, see "Regulatory Overview — Laws and Regulations Related to Foreign Exchange."

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, including SAFE rules and circulars referred to above, we cannot assure you that we will be able to complete the necessary government registrations or filings on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries, or additional capital contributions by us to our PRC subsidiaries, and conversion of such loans or capital contributions into RMB. If we fail to complete such registrations or filings, our ability to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely affect our ability to fund and expand our business.

Fluctuations in exchange rates could result in foreign currency exchange losses.

The value of the Renminbi against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government's policies, and depends, to a large extent, on domestic and international economic and political developments, as well as supply and demand in the local market. In addition, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates, and to achieve policy goals. It is difficult to predict how market forces or government policies may impact the exchange rate between the Renminbi and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In 2020, 2021 and 2022, we recorded exchange differences on translation of financial statements into presentation currency of nil, RMB9.4 million and RMB837.4 million, respectively.

The proceeds from the Global Offering will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against the Hong Kong dollar may result in a decrease in the value of our proceeds from the Global Offering. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our Shares in a foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Moreover, we are also currently required to obtain the SAFE or its local counterpart's approval before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our business, financial condition, and results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

Governmental control of currency conversion may limit our ability to utilize our revenue effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenue in Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of SAFE by complying with certain procedural requirements. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries to pay off their respective debt in a currency other than Renminbi owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi. Any failure to comply with applicable foreign exchange regulations may subject us to administrative fines or even criminal penalties, which could materially and adversely affect the value of your investment.

Since 2016, the PRC government has tightened its foreign exchange policies again and stepped up scrutiny of major outbound capital movement. More restrictions and a substantial vetting process have been put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demand, we may not be able to pay dividends in foreign currencies to our Shareholders.

Certain PRC regulations may make it more difficult for us to pursue growth through acquisitions.

Among other things, the M&A Rules established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that the foreign investor should submit a declaration to the MOFCOM in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise in any of the following circumstances: (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. We do not expect that any of our further merger and acquisition will trigger the requirement to submit such declaration to MOFCOM under any of the above-mentioned circumstances or any review by other PRC government authorities.

Moreover, the Anti-Monopoly Law of the PRC (《中華人民共和國反壟斷法》) promulgated by the SCNPC which became effective in 2008 and recently amended in 2022 requires that transactions which are deemed concentrations and involve parties with specified share of the market must be cleared by the SAMR before they can be completed. In addition, the Notice on the Implementation of Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by the State Council (《國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知》), effective in March 2011, and Measures for the Security Review of Foreign Investment (《外商投資安全審查辦法 》), effective in January

2021, require acquisitions by foreign investors of PRC companies engaged in certain industries that are crucial to national security be subject to security review before the consummation of such acquisition.

We may pursue potential strategic acquisitions that are complementary to our business and operations. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from the SAMR, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.

In July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or SAFE Circular 37. SAFE Circular 37 requires PRC residents (including PRC individuals and PRC corporate entities) to register with SAFE or its local branches in connection with their direct or indirect offshore investment activities. SAFE Circular 37 further requires amendment to the SAFE registrations in the event of any changes with respect to the basic information of the offshore special purpose vehicle, such as change of the offshore special purpose vehicle's name and operation term, or any significant changes with respect to the PRC individual shareholder, such as increase or decrease of capital contribution, share transfer or exchange, or mergers or divisions. SAFE Circular 37 is applicable to our Shareholders who are PRC residents and may be applicable to any offshore acquisitions that we make in the future.

If our shareholders who are PRC residents fail to make the required registration or to update the previously filed registration, the PRC subsidiary may be prohibited from distributing its profits or the proceeds from any capital reduction, share transfer or liquidation to the offshore parent, and the special purpose vehicle may also be prohibited from making additional capital contributions into its PRC subsidiary. On February 13, 2015, the SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), or SAFE Notice 13, which became effective on June 1, 2015. Under SAFE Notice 13, applications for foreign exchange registration of inbound foreign direct investments and outbound overseas direct investments, including those required under SAFE Circular 37, will be filed with qualified banks instead of SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of SAFE.

As of the Latest Practicable Date, our Shareholder, Mr. Wu Xiangdong, is subject to SAFE regulations, and had completed the registration with qualified banks as required by SAFE Circular 37. We can provide no assurance that we are or will in the future continue to be informed of identities of all PRC residents holding direct or indirect interest in our Company. Any failure or inability by such individuals to comply with SAFE regulations may subject us to fines or legal sanctions, such as restrictions on our cross-border investment activities or our PRC subsidiaries' ability to distribute dividends to, or obtain foreign exchange-denominated loans from, our Company or prevent us from making distributions or paying dividends. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

Any adverse change in our tax treatment could have a material and adverse impact on our business and results of operations.

We are subject to income tax as well as other taxes, such as VAT, consumption tax, stamp duty, environmental protection tax, withholding taxes and obligations and local surcharges in China. We are also subject to reviews, examinations and audits by Chinese tax authorities. If Chinese tax authorities disagree with our tax positions, we could face additional tax liabilities, including but not limited to potential interest, late fees and penalties. Payment of such additional amounts upon final settlement or adjudication of any disputes could have a material adverse impact on our results of operations and financial condition.

Moreover, the tax regime in China is rapidly evolving and there can be uncertainty for taxpayers in China as Chinese tax laws may change or be subject to uncertain interpretations. Any increases in tax rates, changes in legislation, regulation or interpretation of existing laws and regulations in China where we are subject to taxation could increase our taxes and have an adverse effect on our results of operations and financial condition.

If we are classified as a PRC resident enterprise for PRC enterprise income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC Shareholders.

Under the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) and its implementation rules, an enterprise established outside of the PRC with its "*de facto* management body" within the PRC is considered a "resident enterprise" and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term "*de facto* management body" as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. The STA issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People's Republic of China Tax Resident Enterprises on the Basis of *De Facto* Management Bodies (《國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), or the STA Circular 82, on April 22, 2009 and most recently amended on December 29, 2017 which provides certain specific criteria for determining whether the "*de facto* management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular applies only to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the STA's general position on how the "*de facto* management body" text should be applied in determining the tax resident status of all offshore enterprises. According to STA Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "*de facto* management body" in China, and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

There have been no official implementation rules regarding the determination of the "*de facto* management bodies" for foreign enterprises which are not controlled by Chinese enterprises (including companies like us). Therefore, it remains unclear how the tax authorities will treat a case like ours. If the PRC tax authorities determine that our Company or any of its non-PRC subsidiaries is a PRC resident enterprise for enterprise income tax purposes, our Company or such subsidiary would be subject to PRC enterprise income on its worldwide income at the rate of 25%. Furthermore, if we were treated as a PRC tax resident enterprise, we would be required to withhold a 10% tax from dividends we pay to our Shareholders that are non-resident enterprises. In addition, non-resident enterprise Shareholders may be subject to PRC tax at a rate of 10% on gains realized on the sale or other disposition of our Shares, if such income is treated as sourced from within the PRC. Furthermore, if we are deemed a PRC resident enterprise, dividends paid to our non-PRC individual Shareholders and any gain realized on the transfer of our Shares by such Shareholders may be subject to PRC tax at a rate of 20% (which, in the case of dividends, may be withheld at source). These rates may be reduced by an applicable tax treaty, but it is unclear whether in practice non-PRC Shareholders of our Company would be able to obtain the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in our Shares.

In addition to the uncertainty as to the application of the "resident enterprise" classification, we cannot assure you that the PRC government will not amend or revise the taxation laws, rules and regulations to impose stricter tax requirements or higher tax rates. Any of such changes could materially and adversely affect our financial condition and results of operations.

We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

On February 3, 2015, the STA issued the Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), or STA Bulletin 7. STA Bulletin 7 extends its tax jurisdiction to transactions involving the transfer of taxable assets through offshore transfer of a foreign intermediate holding company. In addition, STA Bulletin 7 has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. STA Bulletin 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets, as such persons need to determine whether their transactions are subject to these rules and whether any withholding obligation applies.

On October 17, 2017, the STA issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source (《關於非居民企業所得稅源泉扣繳有關問題的公告》), or STA Bulletin 37, which came into effect on December 1, 2017. The STA Bulletin 37 further clarifies the practice and procedure of the withholding of non-resident enterprise income tax.

Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a "substance over form" principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and the transferee or other person who pays for the transfer is obligated to withhold the applicable taxes for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries and investments. Our Company may be subject to filing obligations or taxed if our Company is transferor in such transactions, and may be subject to withholding obligations if our Company is transferee in such transactions, under STA Bulletin 7 and/or STA Bulletin 37. For transfer of shares in our Company (other than on public securities markets) by investors who are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under STA Bulletin 7 and/or STA Bulletin 37. As a result, we may be required to expend valuable resources to comply with STA Bulletin 7 and/or STA Bulletin 37 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our Company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

Laws and regulations related to e-commerce activities in China may impose additional requirements and obligations on our online stores or could increase our compliance cost.

The e-commerce industry in which we have operations is highly regulated. As the e-commerce industry is evolving rapidly in China, new laws and regulations may be adopted to address new issues that arise from time to time and to impose additional restrictions on our e-commerce business, and we cannot assure you that we would be able to meet all the regulatory requirements in a timely manner, or at all. For example, the E-Commerce Law of the PRC (《中華人民共和國電子商務法》), promulgated by the SCNPC in August 2018 and implemented in January 2019, requires all e-commerce operators, broadly defined to include natural persons, legal persons and unincorporated organizations that engage in business activities of selling commodities or offering services through the internet and other information networks, to abide by the principles of voluntariness, equality, equity and good faith, observe the law and business ethics, fairly participate in market competition, perform obligations in aspects including protection of consumer rights and interests, environment, intellectual property rights, cybersecurity and individual information, assume responsibility for quality of products or services, and accept the supervision by the government and the public. Such legislation and enforcement may result in additional compliance obligations and costs or place restrictions upon our current or future operations. Any failure to comply with all applicable laws and regulations may subject us to fines and other regulatory actions, which could have a material adverse effect on our business and results of operations.

Our environmental related costs may increase if the Chinese environmental protection laws become more onerous, and any non-compliance with relevant environmental protection laws could lead to imposition of fines and penalties and harm our business.

The industry in which we operate is subject to PRC environmental protection laws and regulations. These laws and regulations require companies engaged in manufacturing and construction that may cause environmental waste to adopt effective measures to control and properly discharge waste gasses, waste water, industrial waste, dust and other environmental waste, and that the fees in relation to the discharge of wastes should be borne by the producer of the wastes. We are also required by the PRC laws and regulations to obtain pollutant discharge permits from government authorities for the treatment and disposal of the waste gasses, waste water and solid waste produced during our manufacturing processes. See "Regulatory Overview — Laws and Regulations on Environmental Protection." Any violation of these regulations may result in substantial fines, order of suspension of operations, order of rectification, revocation of operating permits, or even criminal sanctions.

In recent years, the PRC government has strengthened environmental protection through promulgating new laws and regulations and revising existing laws and regulations. Our business involves environmental-related issues, including water taking, discharging solid waste from plants, and construction works for water source mining, and are required to complete environment impact assessment in a timely manner. Although we have not received any notice or warning from the government on material environmental violations, the PRC government may enact new laws or revise existing laws and regulations to set higher environmental requirements and standards on the industry where we operate and the businesses which we are engaged in.

In addition, due to the possibility of unanticipated regulatory or other changes, the amount and timing of future environmental expenditures may vary substantially from those currently anticipated. Our cost of complying with current and future environmental regulations, and liabilities which may potentially arise from pollutant discharge, may materially adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

There has been no prior public market for Shares, and an active trading market for Shares of the Company may not develop.

Prior to the Global Offering, there has been no public market for our Shares. The initial Offer Price range of our Shares, and the Offer Price, will be the result of negotiations between the Overall Coordinators (for themselves and on behalf of the Underwriter(s)) and us. In addition, while we have applied to have our Shares listed on the Stock Exchange, there can be no guarantee that (i) an active trading market for our Shares will develop or, (ii) if it does, that it will be sustained following the completion of the Global Offering, or (iii) that the market price of our Shares will not decline below the Offer Price. You may not be able to resell your Shares at a price that is attractive to you, or at all.

The price and trading volume of our Shares may be volatile which may result in substantial losses for investors purchasing the Company's shares in the Global Offering.

The price and trading volume of the Shares may be volatile. The market price of the shares may fluctuate significantly and rapidly as a result of the following factors, among others, some of which are beyond our control:

- variations of our results of operations (including variations arising from foreign exchange rate fluctuations);
- loss of customers;
- changes in securities analysts' estimates of our financial performance;

- announcement by us of significant acquisitions, greenfield developments, strategic alliances or joint ventures;
- addition or departure of key personnel;
- fluctuations in stock market price and volume;
- involvement in litigation; and
- general economic and stock market conditions.

In addition, stock markets and the shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced increasing price and volume fluctuations in recent years, some of which have been unrelated or disproportionate to the operating performance of such companies. These broad market fluctuations may materially and adversely affect the market price of our shares.

Since there will be a gap of several days between pricing and trading of the Company's Shares, shareholders of the Company are subject to the risk that the price of Shares may fall during the period before trading of Shares begins. The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several Business Days after the pricing date. As a result, investors may not be able to sell or deal in our shares during that period. Accordingly, holders of our shares are subject to the risk that the price of our shares may fall before trading begins as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

Future sale or major divestment of Shares by the Controlling Shareholders or financial investors of the Company may materially and adversely affect the prevailing market price of our Shares.

The future sale of a significant number of our Shares by the Controlling Shareholders or financial investors in the public market after the Global Offering, or the perception that such sale may occur, could materially and adversely affect the market price of our Shares and could materially impair our ability to raise capital through future offerings of our Shares. Any major disposal of our Shares by any of the Controlling Shareholders and financial investors (or the perception that these disposals may occur) may cause the prevailing market price of our Shares to fall, which may negatively impact our ability to raise capital in the future. While we currently are not aware of any intention of the Controlling Shareholders or financial investors of the Company to dispose of a significant amount of their Shares, we cannot assure you that they will not dispose of any Shares that they own or may own in the future.

The interests of the Company may conflict with those of the Controlling Shareholders, who may take actions that are not in, or may conflict with, the best interests of the Company or its public shareholders.

Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised), the Controlling Shareholders will hold approximately 69.08% of the issued share capital of our Company. The interests of the Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of the Controlling Shareholders conflict with the interests of our other Shareholders, or if the Controlling Shareholders cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, the non-controlling shareholders may be disadvantaged by the actions that the Controlling Shareholders choose to cause us to pursue. In particular, our Controlling Shareholder, Mr. Wu, indirectly controls companies which are engaged in the production and sale of baijiu products including Jinliufu (金六福), Yushuqian (榆樹錢), Jinyuanchun (今緣春), Yanfeng (雁峰), Wubi (無比), Linshui (臨水), Xiangshan (湘山) and Taibai (太白) (as and when controlled by Mr. Wu, collectively, the "**Excluded Baijiu Business**"). We have various business and corporate governance measures in place, which will be implemented upon Listing including the Controlling Shareholders' execution of the Deed of Non-competition (including the undertakings therein with respect to the Excluded Baijiu Business) to mitigate the conflict of interests. See "Relationship with the Controlling Shareholders — Delineation Between our Group and the Excluded Baijiu Business." However, these restrictions and non-competition arrangements may be terminated if the Mr. Wu and Zhenjiu Holding cease to be our Controlling Shareholders. There is no assurance that our Controlling Shareholders will not carry on a business in competition with us after the expiry of the abovementioned non-competition undertakings. Given Mr. Wu's familiarity with our brands and operations and his reputation as the Controlling Shareholder of our Group, our customers may be driven away if our Controlling Shareholders carry on a business in competition with us, and therefore the conflicts of interest or overlap of business activities between our Controlling Shareholders and us may have a material and adverse impact on our business, financial condition and results of operations.

The Controlling Shareholders have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including but not limited to mergers, privatizations, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. The Controlling Shareholders have no obligation to consider the interests of the Company or the interests of our other shareholders. As such, the Controlling Shareholders' interests may not necessarily be in line with the best interests of the Company or the interests of our other Shareholders, which may have a material and adverse effect on the Company's business operations and the price at which our Shares are traded on the Stock Exchange.

Certain statistics contained in this prospectus are derived from a third-party report and publicly available official sources.

This prospectus, particularly the sections headed "Business" and "Industry Overview" in this prospectus, contains information and statistics, including but not limited to information and statistics relating to the baijiu industry and markets. Such information and statistics have been derived from various official government and other publications and from a third-party report commissioned by us. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. However, we cannot guarantee the quality or reliability of such source materials. The information and statistics from official government sources have not been independently verified by the Company, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriter(s), any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as the case may be, in other jurisdictions. Therefore, you should not unduly rely upon the industry facts and statistics contained in this prospectus.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements and information that are forward-looking and uses forward-looking terminology such as "anticipate," "believe," "could," "going forward," "intend," "plan," "project," "seek," "expect," "may," "ought to," "should," "would" or "will" and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions may prove to be inaccurate and as a result, the forward-looking statements based on those assumptions may also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward- looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

Purchasers of our Shares in the Global Offering may experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price of our Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering may experience an immediate dilution. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience further dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share.

We cannot assure you whether and when we will declare and pay dividends in the future.

While our Group declared an aggregate of RMB1,886.1 million of distributions/dividends in 2021, there is no assurance as to whether and when we will pay dividends in the future. Declaration and distribution of dividends shall be proposed and formulated by our Board of Directors at their discretion and will be subject to shareholder approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including, without limitation, our results of operations, financial condition, operating and capital expenditure requirements, distributable profits, future prospects and other factors that our Board of Directors may determine are important. Accordingly, our historical dividend distributions are not indicative of our future dividend distribution policy and potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which future dividends are determined. See "Financial Information — Dividends" for more details of our dividend policy.

There may be difficulties in protecting your interests under the laws of the Cayman Islands.

Our corporate affairs are governed by, among other things, our Memorandum and Articles of Association, the Companies Act and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions. Such differences may mean that the remedies available to the minority shareholders may be different from those they would have under the laws of other jurisdictions. See "Appendix III — Summary of the Constitution of Our Company and Cayman Islands Company Law" for more details.

Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other information contained in this prospectus.

Prior to the publication of this prospectus, there has been coverage in the media regarding us and the Global Offering, which contained among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for the accuracy or completeness of such media coverage or forward-looking statements. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or there are conflicts with the information contained in this prospectus. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE

According to Rule 8.12 of the Listing Rules, our Company must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since our headquarters and all of our business operations are not located, managed or conducted in Hong Kong, our Company does not, and for the foreseeable future, will not, have two executive Directors who are ordinarily resident in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

Accordingly, our Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules. Our Company has made the following arrangements to maintain proper regular communication between the Stock Exchange and us:

(i) both of our Company's authorized representatives, Mr. Wu, our executive Director, chairman of the Board and a Controlling Shareholder, and Mr. Ng, our executive Director and company secretary, will act as our Company's principal channel of communication with the Stock Exchange. Accordingly, the authorized representatives of our Company will be able to meet with the relevant members of the Stock Exchange on reasonable notice and will be readily contactable by telephone and email;

(ii) each of the authorized representatives of our Company has the means of contacting all Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange proposes to contact a Director with respect to any matter;

(iii) each Director has provided his/her current contact details, including mobile phone numbers, office phone numbers, e-mail addresses and fax numbers (if any), to the authorized representatives of our Company and the Stock Exchange, and in the event that any Director expects to travel or otherwise be out of the office, he/she will provide the phone number of the place of his/her accommodation to the authorized representatives;

(iv) we have one executive Director, Mr. Ng, ordinarily residing in Hong Kong and each of the Directors of our Company not ordinarily residing in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time;

(v) our Company has, in compliance with Rule 3A.19 of the Listing Rules, appointed Somerley Capital Limited as our compliance advisor (the "**Compliance Advisor**"), who will also act as an additional channel of communication with the Stock Exchange for the period commencing from the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. The Compliance Advisor will maintain constant contact with the authorized representatives, Directors and senior management through various means, including regular meetings and telephone discussions whenever necessary. Our authorized representatives, Directors and other officers will provide promptly such information and assistance as the Compliance Advisor may reasonably require in connection with the performance of the Compliance Advisor's duties as set forth in Chapter 3A of the Listing Rules;

(vi) any meeting between the Stock Exchange and the Directors will be arranged through the authorized representatives or the Compliance Advisor or directly with the Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any changes in our authorized representatives and our Compliance Advisor; and

(vii) we will also retain legal advisors to advise on on-going compliance requirements as well as other issues arising under the Listing Rules and other applicable laws and regulations of Hong Kong after Listing.

PUBLIC FLOAT REQUIREMENT

Rule 8.08(1)(a) of the Listing Rules requires that there must be an open market for the securities for which listing is sought, and that a sufficient public float of an issuer's listed securities shall be maintained. Generally, at least 25% of an issuer's total issued share capital must at all times be held by the public. Pursuant to Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange may, subject to certain conditions and at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalization at the time of listing of over HK$10 billion.

Based on the minimum Offer Price of HK$10.78 and assuming no exercise of the Over-allotment Option, we expect to achieve a minimum market capitalization of at least HK$10 billion upon Listing.

Accordingly, we have applied to the Stock Exchange to exercise its discretion under Rule 8.08(1)(d) of the Listing Rules to grant, and the Stock Exchange has granted, a waiver from strict compliance with the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules so that the minimum percentage of the Shares from time to time to be held by the public will be the higher of:

(a) 15.0% of the total issued share capital of our Company; or

(b) such percentage of Shares to be held by the public after the exercise of the Over-allotment Option.

In support for the application of the waiver, we have confirmed to the Stock Exchange that:

(a) we have an expected market capitalization at the time of Listing of over HK$10 billion;

(b) there will be an open market in the Shares, and the number of Shares concerned and the extent of their distribution would enable the market to operate properly with a lower percentage of public float;

(c) we will make appropriate disclosure of the lower prescribed percentage of public float in this prospectus;

(d) we will implement appropriate measures and mechanisms to ensure continual maintenance of the minimum public float prescribed by the Stock Exchange;

(e) we will confirm sufficiency of public float in our successive annual reports after the Listing; and

(f) in the event that the public float percentage falls below the minimum percentage prescribed by the Stock Exchange, we will take appropriate steps to ensure that the minimum percentage of public float prescribed by the Stock Exchange is complied with.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors (including any proposed director who is named as such in this Prospectus) collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus contains the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, the Overall Coordinators, the Capital Market Intermediaries, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators and the Overall Coordinators. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price. The International Offering is expected to be fully underwritten by the International Underwriters, subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or about the Price Determination Date.

The Offer Price is expected to be determined among the Overall Coordinators (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around April 20, 2023 and, in any event, not later than April 26, 2023 (unless otherwise determined among the Overall Coordinators (for themselves and on behalf of the Underwriters) and our Company). If, for whatever reason, the Offer Price is not agreed among the Overall Coordinators and our Company on or before April 26, 2023, the Global Offering will not become unconditional and will lapse immediately.

See "Underwriting" for further information about the Underwriters and the underwriting arrangements.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedures for the Hong Kong Offer Shares are set forth in "How to Apply for Hong Kong Offer Shares."

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in "Structure of the Global Offering."

SELLING RESTRICTIONS ON OFFERS AND SALE OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers for the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Stock Exchange for the listing of, and permission to deal in, (a) the Shares in issue (upon completion of the Share Subdivision and including the Shares to be converted from the Preferred Shares); (b) the Shares to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and (c) the Shares which may be issued pursuant to the Post-IPO Equity Incentive Plan. Dealings in the Shares on the Stock Exchange are expected to commence on April 27, 2023. No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All Offer Shares will be registered on the Hong Kong Share Register of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B (1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in "Structure of the Global Offering." Assuming that the Over-allotment Option is exercised in full, the Company may be required to issue up to an additional 73,604,800 Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

HONG KONG REGISTER OF MEMBERS, HONG KONG STAMP DUTY, SFC TRANSACTION LEVY AND THE ACCOUNTING AND FINANCIAL REPORTING COUNCIL TRANSACTION LEVY

The Company's principal register of members will be maintained by its principal share registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands. All of the Shares issued pursuant to the Global Offering will be registered on the Company's Hong Kong branch register of members to be maintained in Hong Kong by its Hong Kong Branch Share Registrar, Tricor Investor Services Limited. Dealings in the Shares registered in our Company's Hong Kong Branch Share Registrar will be subject to Hong Kong stamp duty, SFC transaction levy and the AFRC levy. Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of the Shares will be paid to the shareholders listed on the Hong Kong share register of our Company, by ordinary post, at the shareholders' risk, to the registered address of each shareholder.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding and dealing in the Shares or exercising any rights attached to them. It is emphasized that none of the Company, the Joint Sponsors, the Joint Global Coordinators, the Overall Coordinators, the Capital Market Intermediaries, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective affiliates, directors, supervisors, employees, agents or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of holders of the Shares resulting from the subscription, purchase, holding or disposal of the Shares or exercising any rights attached to them.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars, of Renminbi amounts into U.S. dollars and of Hong Kong dollars into U.S. dollars at specified rates. Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars, of Renminbi into U.S. dollars and of Hong Kong dollars into U.S. dollars, and vice versa, in this prospectus was made at the following rates:

HK$7.8499 to US$1.00

RMB6.8838 to US$1.00

RMB0.87693 to HK$1.00

No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail unless otherwise stated. However, if there is any inconsistency between the names of any of the entities mentioned in the English prospectus that are not in the English language and are English translations, the names in their respective original languages shall prevail.

ROUNDING

Any discrepancies in any table or chart in this prospectus between total and sum of amounts listed therein are due to rounding.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. WU Xiangdong (吳向東)	Unit 1, Building 22 Di Liu Du Furong Middle Road Section 3 Yuhua District Changsha, Hunan Province PRC	Chinese
Mr. YAN Tao (顏濤)	Room 2702, Unit 1, Building 6 Yunda Central Plaza 289 Shawan Road Changsha Avenue Yuhua District Changsha, Hunan Province PRC	Chinese
Ms. ZHU Lin (朱琳)	18B-1703 No. 569 Furong Middle Road Yuhua District Changsha, Hunan Province PRC	Chinese
Mr. LUO Yonghong (羅永紅)	Room 1601, Unit 1, Building 2 198 Lutong Street Tongzhou District, Beijing PRC	Chinese
Mr. NG Kwong Chue Paul (吳光曙)	49 Beach Road Repulse Bay Hong Kong	Chinese
Non-executive Director		
Mr. SUN Zheng (孫錚)	Room 1701, Unit 3 Building 6, Yard 88 Dongsihuan North Road Chaoyang District, Beijing PRC	Chinese

Name	Address	Nationality
Independent Non-executive Directors		
Mr. YUNG Tse Kwong Steven (戎子江)	Flat C-1, 29/F, Block C Pearl City Mansion 22 Paterson Street Hong Kong	Chinese
Mr. LI Dong (李東)	Flat B, 11/F, Block 3 The Hermitage 1 Hoi Wang Road Tai Kok Tsui Kowloon, Hong Kong	Chinese
Ms. YAN Jisheng (閆極晟)	Room 2102, Building 11 New City International No.6 Chaoyangwai Avenue Chaoyang District, Beijing PRC	Chinese

For further details of our Directors, see the section headed "Directors and Senior Management."

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors	**Goldman Sachs (Asia) L.L.C.** 68/F, Cheung Kong Center 2 Queen's Road Central Hong Kong
	China Securities (International) Corporate Finance Company Limited 18/F, Two Exchange Square 8 Connaught Place Central, Hong Kong
Overall Coordinators and Joint Global Coordinators	**Goldman Sachs (Asia) L.L.C.** 68/F, Cheung Kong Center 2 Queen's Road Central Hong Kong
	China Securities (International) Corporate Finance Company Limited 18/F, Two Exchange Square 8 Connaught Place Central, Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbor View Street Central, Hong Kong

Joint Bookrunners and Joint Lead Managers	**Goldman Sachs (Asia) L.L.C.** 68/F, Cheung Kong Center 2 Queen's Road Central Hong Kong
	China Securities (International) Corporate Finance Company Limited 18/F, Two Exchange Square 8 Connaught Place Central, Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbor View Street Central, Hong Kong
	KKR Capital Markets Asia Limited *(in respect of the International Offering only)* 56/F, Cheung Kong Center 2 Queen's Road Central Hong Kong
Capital Market Intermediaries	**Goldman Sachs (Asia) L.L.C.** 68/F, Cheung Kong Center 2 Queen's Road Central Hong Kong
	China Securities (International) Corporate Finance Company Limited 18/F, Two Exchange Square 8 Connaught Place Central, Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbor View Street Central, Hong Kong
	KKR Capital Markets Asia Limited *(in respect of the International Offering only)* 56/F, Cheung Kong Center 2 Queen's Road Central Hong Kong

Legal advisors to our Company	*As to Hong Kong and United States laws:* **Davis Polk & Wardwell** 10/F, The Hong Kong Club Building 3A Chater Road Central, Hong Kong *As to PRC laws:* **King & Wood Mallesons** 18th Floor, East Tower World Financial Center 1 Dongsanhuan Zhonglu Chaoyang District Beijing PRC *As to Cayman Islands laws:* **Conyers Dill & Pearman** 29th Floor, One Exchange Square 8 Connaught Place Central Hong Kong
Legal advisors to the Joint Sponsors and the Underwriters	*As to Hong Kong and United States laws:* **Cleary Gottlieb Steen & Hamilton (Hong Kong)** 37th Floor, Hysan Place 500 Hennessy Road Causeway Bay Hong Kong *As to PRC laws:* **Haiwen & Partners** 20/F, Fortune Financial Center 5 Dong San Huan Central Road Chaoyang District Beijing, PRC

Auditor and Reporting Accountants	**KPMG** *Certified Public Accountants* 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Industry Consultant	**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.** Suite 2504, Wheelock Square 1717 Nanjing West Road Shanghai, PRC
Compliance Advisor	**Somerley Capital Limited** 20/F China Building 29 Queen's Road Central, Hong Kong
Receiving Bank	**DBS Bank (Hong Kong) Limited** 11/F, The Center 99 Queen's Road Central Central Hong Kong

Registered Office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head Office and Principal Place of Business in the PRC	8th Floor, Jiahe Guoxin Building No.15 Baiqiao Avenue Dongcheng District Beijing
Principal Place of Business in Hong Kong	Room 1504, Berkshire House 25 Westlands Road Taikoo Place, Quarry Bay East District, Hong Kong Island Hong Kong
Company's Website	**www.zjld.com** *(the information contained on this website does not form part of this prospectus)*
Company Secretary	**Mr. NG Kwong Chue Paul (吳光曙)** *(Fellow of the Australian Society of Certified Practising Accountants and certified public accountant of the Hong Kong Institute of Certified Public Accountants)* 49 Beach Road Repulse Bay Hong Kong
Authorized Representatives	**Mr. WU Xiangdong (吳向東)** Unit 1, Building 22 Di Liu Du Furong Middle Road Section 3 Yuhua District Changsha, Hunan Province PRC **Mr. NG Kwong Chue Paul (吳光曙)** 49 Beach Road Repulse Bay Hong Kong
Audit Committee	Mr. LI Dong (李東) *(Chairman)* Mr. SUN Zheng (孫錚) Ms. YAN Jisheng (閆極晟)

Remuneration Committee	Mr. YUNG Tse Kwong Steven (戎子江) *(Chairman)*
	Mr. LUO Yonghong (羅永紅)
	Mr. LI Dong (李東)
Nomination Committee	Mr. WU Xiangdong (吳向東) *(Chairman)*
	Mr. YUNG Tse Kwong Steven (戎子江)
	Ms. YAN Jisheng (閆極晟)
Principal Share Registrar and Transfer Office in the Cayman Islands	**Conyers Trust Company (Cayman) Limited** Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman KY1-1111, Cayman Islands
Hong Kong Branch Share Registrar	**Tricor Investor Services Limited** 17/F, Far East Finance Centre 16 Harcourt Road Hong Kong
Principal Banks	**Industrial and Commercial Bank of China** Zunyi Jinghua Branch No. 295, Hong Kong Road Huichuan District Zunyi City, Guizhou Province PRC
	Bank of China Jinxian Branch No. 59, Zhongling Road Jinxian County, Nanchang City Jiangxi Province PRC
	China Construction Bank Shaoyang Baocheng Branch Facade No. 22-27, 1st Floor Podium Building, Diwang Tower Beita District, Shaoyang City Hunan Province PRC

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications generally believed to be reliable and from the market research report prepared by Frost & Sullivan, which we commissioned. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. However, information and statistics from official government sources have not been independently verified by us or any other parties involved in the Global Offering and no representation is given as to their accuracy. The information and statistics contained in this section may not be consistent with other information and statistics compiled within or outside of China. As a result, you are advised not to place undue reliance on such information.

SOURCE AND RELIABILITY OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on China's baijiu industry. The report prepared by Frost & Sullivan for us is referred to in the prospectus as the Frost & Sullivan Report. A total fee of RMB1,305,000 was paid to Frost & Sullivan for the preparation of the report, which we believe reflects market rates for reports of this type. Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists.

The Frost & Sullivan Report was undertaken through both primary and secondary research obtained from various sources using intelligence collection methodologies. Primary research involved discussing the status of the industry with certain leading industry participants across the industry value chain and conducting interviews with relevant parties to obtain objective and factual data and prospective predictions. Secondary research involved reviewing information integration of data and publication from publicly available sources, including official data and announcements from government agencies, and company reports, independent research reports and data based on Frost & Sullivan's own data base.

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions (i) the social, economic, and political environment in China is likely to remain stable in the forecast period and (ii) industry key drivers are likely to drive the China baijiu industry in the forecast period.

Our Directors have confirmed that there has been no adverse change in the market situation since the date of the Frost & Sullivan Report which may qualify, contradict, or have impact on the information of this section.

OVERVIEW OF CHINA'S BAIJIU INDUSTRY

Overview of Baijiu

Baijiu is a traditional liquor in China that has been produced and consumed for thousands of years. Similar to the role of wine in French culture and the role of beer in American culture, baijiu plays a very important role in the Chinese culture. Baijiu's market share in China accounted for 69.5% of the alcoholic beverage market in China in terms of revenue in 2021, exceeding wine's 49.9% market share in French alcoholic beverage market and beer's 50.5% market share in the U.S. alcoholic beverage market in the same period. For Chinese people, baijiu is not only an alcoholic beverage but also a culture heritage. In recent years, the population of baijiu consumers has continued to grow, as an increasing number of people are showing interest in this traditional Chinese liquor. In 2021, the baijiu consumer population reached 350 million. In the past, baijiu was primarily consumed by older generations, with a preference for strong-flavored and potent baijiu varieties. However, according to data provided by the China Alcoholic Drinks Association in 2021, the majority of baijiu consumers are now between the ages of 21 and 50, with the age group of 31 to 40 accounting for the highest percentage of consumers at 48%. This suggests that younger generations are increasingly influencing baijiu consumption in China. Furthermore, although the majority of baijiu consumers are male, this proportion has decreased over the past few years, with female consumers now making up 28% of the baijiu consumer group. In terms of sales value of baijiu in 2021, Shangdong, Henan and Jiangsu are the top three provinces in China.

Looking towards the future, as younger generations become more financially independent, they will have greater purchasing power and may be more willing to experiment with different types of baijiu. In terms of gender, it is expected that age and gender demographics of baijiu consumers will shift. While the majority of baijiu consumers have historically been male, there has been a noticeable increase in female consumers in recent years, as gender roles and societal expectations continue to evolve in China, there is a shift in how alcohol consumption is perceived among women. As such, the gender demographics of baijiu consumers will become more balanced in the future. Geographically, there is potential for the baijiu market to expand beyond its current strongholds in Shangdong, Henan and Jiangsu. As the Chinese economy continues to grow and develop, there is projected to be an increase in baijiu consumption in other regions and even internationally. Overall, the baijiu industry is poised for continued growth and diversification in the coming years, with changes in age, gender, and geographic demographics shaping the market.

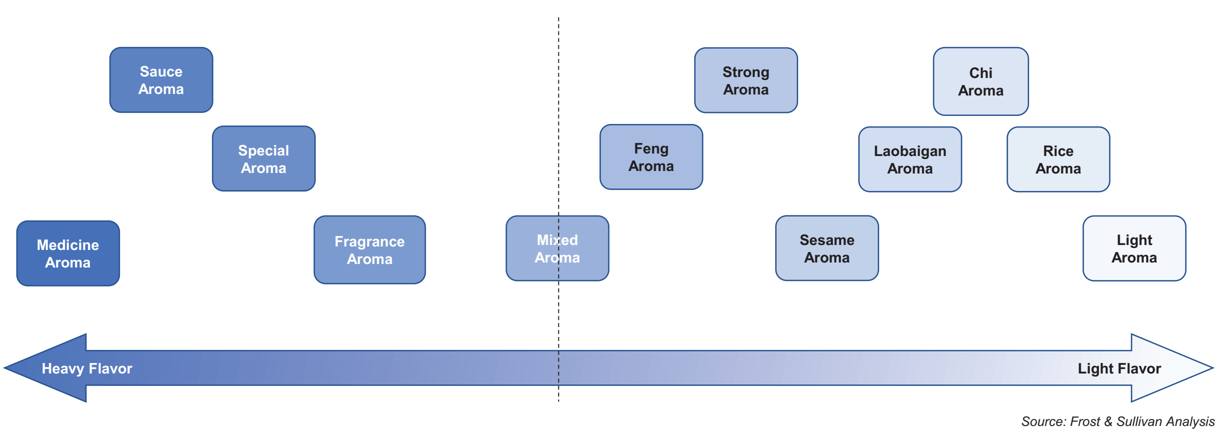
Baijiu is a colorless, clear liquor distilled from fermented sorghum, rice or other grains with a diverse range of alcohol content. Serving as the fermentation starter, qu is the essential material for the saccharification of baijiu and the key to the baijiu-making process. Qu is composed of various molds, yeasts, bacteria, and their metabolites, cultivated on a substrate rich in starch through a fermentation process. This process involves the breakdown of starches in grains into sugars through saccharification, which can then be fermented into alcohol.

The "Terminology of Baijiu Industry" was established by the Standardization Administration of China and falls under the jurisdiction of the State Administration for Market Regulation. The standard classified baijiu into 12 aroma types based on aroma characteristics. Mainstream aroma types include strong aroma, sauce aroma, light aroma, and mixed aroma, which accounted for 96.3% of the entire China's baijiu industry by revenue in 2021, the remaining eight aroma types, including rice aroma, special aroma, feng aroma, medicine aroma, fragrance aroma, laobaigan aroma, chi aroma and sesame aroma, accounted for only 3.7% of the market share, thus are classified as "Other" types. Among these baijiu aroma types, sauce aroma baijiu has become increasingly popular due to its distinct flavor profile. The secret to sauce aroma baijiu's peculiar flavor lies in its unique stacking fermentation process, which formulating the umami flavor that can usually be found in fermented soy beans.

Key Distinctions Among the Twelve Aroma Types of Baijiu

Aroma Types	Major Raw Materials	Approximate Fermentation Time	Aroma Types	Major Raw Materials	Approximate Fermentation Time	Aroma Types	Major Raw Materials	Approximate Fermentation Time
Strong Aroma	Sorghum, rice, wheat, maize	45-90 days	Rice Aroma	Sorghum, rice, glutinous rice	5-7 days	Fragrance Aroma	Sorghum, glutinous rice, rice, wheat and corn	30-60 days
Sauce Aroma	Sorghum	~ 240 days	Special Aroma	Rice	~ 45 days	Laobaigan Aroma	Sorghum	~ 15 days
Light Aroma	Sorghum	4-30 days	Feng Aroma	Sorghum, barley	28-30 days	Chi Aroma	Rice, soybean	~ 20 days
Mixed Aroma	Sorghum, wheat	~ 270 days	Medicine Aroma	Sorghum, rice, wheat, herbs	~ 240 days	Sesame Aroma	Sorghum	30-45 days

Baijiu Aroma Types Sorted by Flavors



Source: Standardization Administration of China, Frost & Sullivan Analysis

Based on sales value, baijiu can be classified into four price ranges. Deluxe refers to the recommended sales price over RMB1,500 (incl) per volume of 500ml. Premium refers to the recommended sales price that is between RMB600 (incl) and RMB1,500 per volume of 500ml. Mid-range refers to the recommended sales price that is between RMB100 (incl) to RMB600 per volume of 500ml. Low-end refers to the recommended sales price that is below RMB100 per volume of 500ml. The categorization of the baijiu market into four price ranges is in line with industry practice and reflects the position of baijiu products and the consumer behavior in purchasing baijiu products. Consumers tend to purchase premium and deluxe baijiu products for social gatherings and business settings where a higher quality product is expected, while they typically opt for mid-range and low-end products for personal consumption and sharing with families and friends.

The regional characteristic plays an important part in the baijiu industry. Consumers in different geographical regions have different preferences for baijiu culture, taste, and brands.

Baijiu Industry Value Chain Analysis

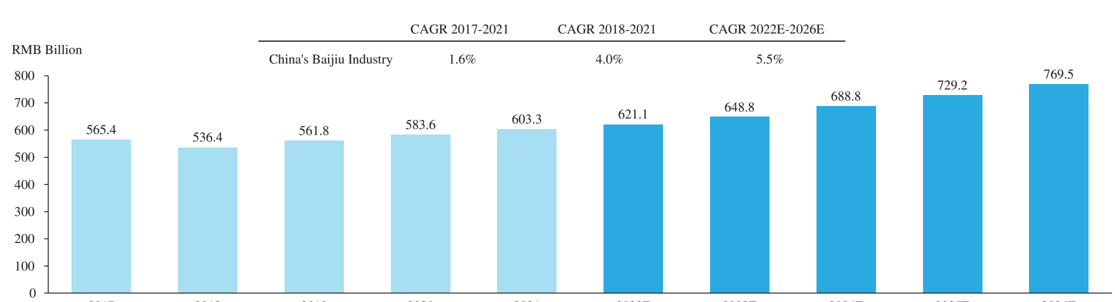
The upstream players of the baijiu industry value chain include raw material suppliers, packaging materials manufacturers, etc. The midstream players include baijiu production companies and brand owners, and the downstream players include distributors and end consumers. Grains, such as sorghum, rice and wheat, are the main raw materials of baijiu. Though raw material prices have risen steadily in recent years, but as basic commodities concerning China's macro-economy and people's livelihood, the PRC government has been strictly controlling their prices. The steadily increased grain output in recent years has secured sufficient raw materials for baijiu production. Consumers at the downstream mainly include consumers who consume baijiu in business settings, social gathering or for personal leisure. As China's consumption patterns continue to evolve, there is increasing demand among consumers for premium and deluxe baijiu products.

Market Size of China's Baijiu Industry

Over the past few years, the government has strengthened regulatory requirements which have had an indirect impact on the consumption and sales of the baijiu industry. The "Sangong Consumption Policy" (三公消費政策) and "Several Opinions on Carrying out the 'Sanpin' Special Action of the Consumer Goods Industry" (《關於開展消費品工業"三品"專項行動》) have had an impact on China's baijiu industry. The "Sangong Consumption Policy", which restricts government departments from incurring high administrative expenses for official receptions, purchases and business trips, has led to a decrease in baijiu consumption by government officials. Additionally, the above "Several Opinions", which aims to regulate the market for consumer goods, has further adversely impacted the baijiu industry. Primarily as a result of the Several Opinions announced in 2016, the market size of the baijiu industry by revenue decreased from RMB565.4 billion in 2017 to RMB536.4 billion in 2018. Meanwhile, the number of market players in China's baijiu market decreased from 1,593 in 2017 to 965 in 2021. The decrease in government spending on baijiu has led to a shift in consumption towards business gatherings, and it also laid the foundation for the steady and healthy development of the baijiu industry. As a result, the market size by revenue of China's baijiu industry increased from RMB536.4 billion in 2018 to RMB603.3 billion in 2021.

Driven by regulatory effort that provided healthy growth, ongoing trend of premiumization, as well as the increasing popularity of sauce aroma baijiu, China's baijiu industry is expected to continue expanding in the next few years. In addition, the increasing penetration rate of premium and deluxe baijiu would further drive the development of China's baijiu industry.

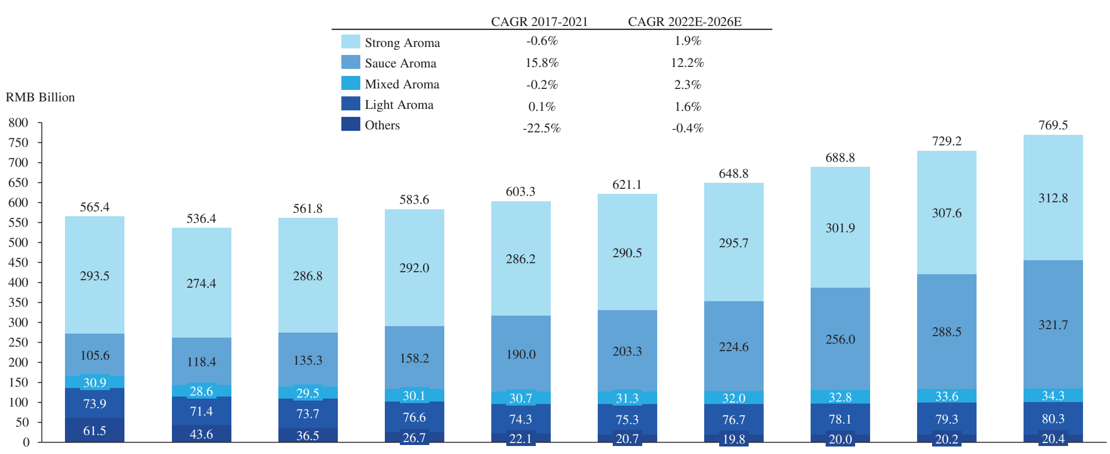
Market Size of China's Baijiu Industry by Revenue, 2017-2026E



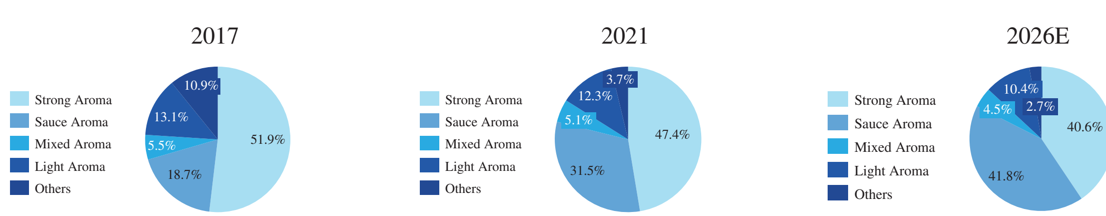
Source: National Bureau of Statistics of China, Frost & Sullivan Analysis

With respect to aroma type, strong aroma baijiu has been the mainstream products of baijiu consumption in China since the release of baijiu classification standards in 1979. In 2017, strong aroma baijiu accounted for 51.9% of China's baijiu industry. Sauce aroma, represented by China's largest baijiu brand — Moutai, is a type of baijiu with the highest growth potential among the aroma types. In 2021, China's baijiu companies only produced around 600 million liters of sauce aroma baijiu, accounting for approximately 8.4% of the baijiu produced in China. Meanwhile, the market size of China's sauce aroma baijiu was RMB190.0 billion in 2021, accounting for 31.5% of the total China's baijiu industry. Furthermore, sauce aroma baijiu accounted for over 45% of the profit for the entire baijiu industry in China with sales profit of RMB78 billion in 2021. In recent years, sauce aroma baijiu has gained significant popularity due to its higher product quality, multilayer scent and a hint of unique umami flavor that cannot be found in other types of baijiu products. The rising market share of sauce aroma baijiu was also driven by the growth of Moutai in China, which resulted in sauce aroma baijiu becoming the second largest aroma type in terms of market size since 2018. The market size of sauce aroma baijiu increased from RMB105.6 billion in 2017 to RMB190.0 billion in 2021, representing a CAGR of 15.8%. The sauce aroma baijiu industry in China has seen exceptional growth in 2021 due to increased consumer demand for high-quality, flavorful products with unique production processes. In response, sauce aroma baijiu companies have expanded their production capacity to meet this demand. As such, it is expected that the market size of China's sauce aroma baijiu will continue to grow and exceed strong aroma to become the largest baijiu aroma type perspective in 2026, representing 41.8% of the entire baijiu industry in China in the same year.

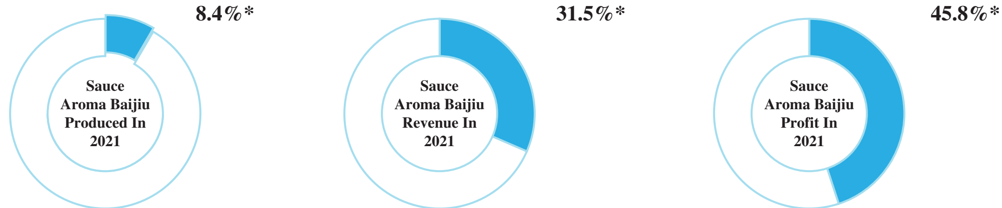
Market Size of China's Baijiu Industry by Aroma Type by Revenue, 2017-2026E



Market Size of China's Baijiu Industry by Aroma Type by Revenue, 2017 & 2021 & 2026E



Sauce Aroma Baijiu's Production Volume, Revenue and Profit in 2021



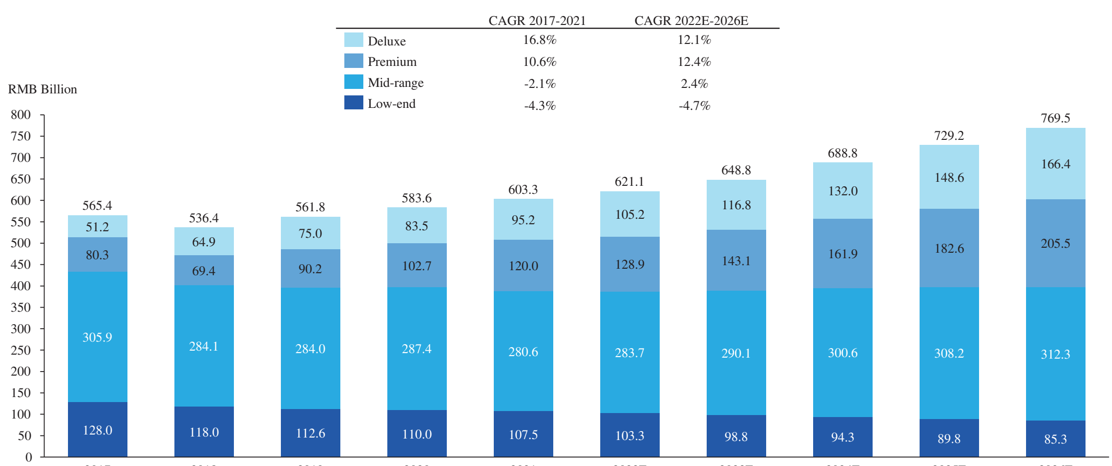
*	As a percentage of the total China's baijiu industry

Source: National Bureau of Statistics of China, Frost & Sullivan Analysis

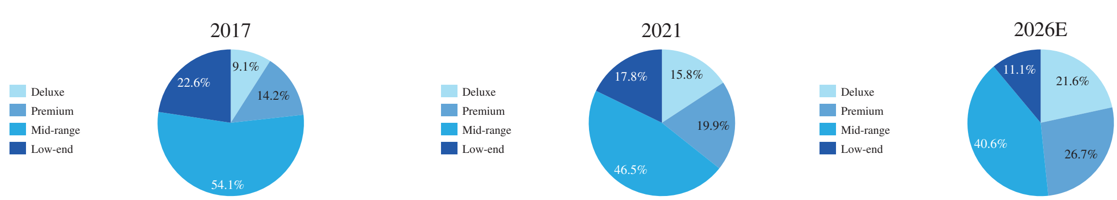
With respect to price range, mid-range baijiu accounted for a majority portion of China's baijiu industry from 2017 to 2021 due to its affordable price and high quality. In the meantime, deluxe baijiu has gained increasing market share during the past few years, driven by rising consumers' income level and consumption upgrades in China.

With increasing purchase power of consumers and baijiu brand premiumization, it is expected that baijiu consumption in China will shift towards premium and deluxe baijiu products, and accordingly the market size for premium and deluxe baijiu products is expected to reach RMB371.9 billion in 2026, at a CAGR of 12.3% between 2022 and 2026, the highest among all price ranges of baijiu products. The market share of premium and deluxe baijiu products is expected to reach 48.3% in 2026, a 12.6% increase from 2021.

Market Size of China's Baijiu Industry by Price Range by Revenue, 2017-2026E



Market Size of China's Baijiu Industry by Price Range by Revenue, 2017 & 2021 & 2026E



Source: National Bureau of Statistics of China, Frost & Sullivan Analysis

Market Drivers and Trends

According to the Frost & Sullivan Report, the main market drivers and development trends of the China's baijiu industry include the followings:

(i) Unique Position as A Cultural Heritage in Social Gatherings

As a time-honored traditional drink long loved and consumed by the Chinese people, baijiu culture has marked its unique position in China. The production of baijiu has a history of more than 5,000 years and it has formed a unique style during the long development process. In 2021, "Reply to Recommendation No. 5834 of the Fourth Session of the 13th National People's Congress" has indicated the intention from Ministry of Industry and Information Technology to promote China's baijiu to be nominated as World Cultural Heritage. In traditional Chinese culture, baijiu is largely considered to be a social alcoholic beverage. People often drink baijiu with their friends and business partners to cherish their friendship and success. Therefore, the culture attribute is the foundation of baijiu consumption and is expected to continue to drive the growth of China's baijiu industry.

(ii) Continuous Innovation and Improvement of Baijiu-Making Process

Driven by the accelerated brand differentiation within China's baijiu industry and the promotion of the PRC government's "Made in China 2025" strategy, the baijiu industry in China has transformed with quality baijiu brands becoming well accepted. Continuous innovation and improvement of production techniques, automation, and information technology have a direct influence on flavor and taste of the crude liquor and baijiu. In September 2021, Guizhou Provincial Development and Reform Commission issued Guizhou Province's "14th Five-Year" Strategic Emerging Industry Cluster Development Plan. The plan promoted the mechanization and intelligent construction of fermentation equipment, improving the industrialization level of the entire baijiu production system.

(iii) Continuous Improvement of Personal Income and Expansion of Middle Class

The contribution of residents' consumption to China's economic growth has increased significantly. With the continuous improvement of Chinese people's living standards, consumers' consumption awareness has gradually changed and consumption has been continuously upgraded. Based on the rapid development of China's economy, the per capita consumption expenditure of Chinese residents continued to increase from 2017 to 2021 at a CAGR of 7.1%, providing a solid economic foundation for residents' consumption. Emerging consumer groups including the rising middle class will become the main force within the baijiu industry as their purchasing power increases. In addition, the demand for premium and deluxe baijiu products in social and business gatherings has increased substantially as the millennial enter the workforce. According to the consumer survey conducted by Frost & Sullivan, 55.8% of the consumers drink baijiu during business related gatherings. As the result, the market share of premium and deluxe baijiu products is expected to reach 48.3% in 2026, a 12.6% increase from 2021, this premiumization trend will further propel the development of China's baijiu industry.

(iv) Increasing Industry Consolidation

The baijiu industry in China is highly competitive. In the nationwide market, a baijiu brand's competitive advantage comes from its brand reputation, product quality and flavors, and business operation. In the regional market, the competitive advantages of a baijiu brand depend on its brand reputation and consumer recognition in that particular region as well as its comprehensive marketing capabilities. Baijiu companies with quality products, high brand awareness, and strong marketing capabilities are better positioned to seize the opportunity to quickly establish market presence and continue to ramp up market share. Leading baijiu companies have been continuously increasing market concentration through expansion and mergers.

(v) Increasing Popularity of Sauce Aroma Baijiu

With higher product quality, multilayer scent and a hint of unique umami flavor that cannot be found in other types of baijiu products, combined with the superior brewing process of sauce aroma baijiu, sauce aroma baijiu has become a new driving force for the development of China's baijiu industry and will become the largest aroma type baijiu in terms of market size by 2026. As there are few volatile substances stored in sauce aroma baijiu, it is considered less irritant to the human body and is relatively beneficial to health while maintaining a multilayer flavor profile. Premium and deluxe sauce aroma baijiu has become scarce due to the unique geographical environment and baijiu-making techniques that require for longer distillery period. With higher product quality and diverse flavor profile, sauce aroma baijiu has become the first choice for many consumers that desire premium and deluxe baijiu products. Also, the consumption of sauce aroma baijiu is gradually expanding nationwide, instead of concentrated in some specific regions. With the continuous popularity of the sauce aroma baijiu, the market size of sauce aroma baijiu will continue to expand.

(vi) Multi-channel Marketing Strategies to Engage Customers

While majority of baijiu brands are selling products through distributors and retail stores, more and more premium and deluxe baijiu brands are developing multi-channel sales networks such as featured stores and direct sales force to engage customers. Featured stores allow brands to showcase their products and values in a dedicated and cohesive space. This can be particularly effective in helping customers learn more about premium and deluxe baijiu brands and its products, and can create a more immersive and engaging brand experience. These stores also allow brands to conduct product promotion and to create a more personalized shopping experience. By providing tastings, workshops, and other interactive elements, brands can create a more interactive and educational experience for customers, by offering discounts on products, brands can also encourage the customers to try out different products. This can help to create a deeper level of brand loyalty and encourage repeat business. Additionally, featured stores can help brands to differentiate themselves from their competitors. By creating a unique and immersive brand experience, brands can stand out from the competition and attract new customers. While, direct sales force, on the other hand, can help to promote the products of premium baijiu companies to potential customers through direct interactions, enabling the company to build intimate customer relationships while gaining insight to consumer preferences. Due to benefits mentioned above, more and more premium and deluxe baijiu companies are inventing creative marketing strategies to reach and maintain customers.

Entry Barriers

According to the Frost & Sullivan Report, the entry barriers of the China's baijiu industry include the following:

(i) Product Quality and Brand Recognition

The taste and quality of baijiu products are critical for a brand to excel in the competitive China's baijiu industry, and are the foundation for building century-long brands. Besides quality and taste, certain baijiu brands have gained the preference of consumers through long-term marketing and image building, which have formed brand barriers. New entrants in the industry need a long time to build their brand characteristics before achieving consumer recognition.

(ii) Production Capacity

Production capacity is crucial to the development of premium baijiu companies. Companies with sizable production facilities in favorable geographic regions are able to create premium products, which can further enhance its brand awareness and increase its market share especially at premium and deluxe price range segments. New entrants are hard to seize sizable production capacity at favorable locations to produce premium and deluxe baijiu products with various flavors and tastes due to the scarcity of premium baijiu distillery region and the time required for construction of production facilities. Thus, sizable production capacity will be a strong obstacle for companies that want to enter baijiu industry and form their own brand awareness and unique flavors.

In 2021, the total production volume of sauce aroma baijiu was approximately 600 thousand tons, of which over 80% sauce aroma baijiu was produced in Guizhou. Among areas in Guizhou, Zunyi is the best sauce aroma baijiu production area. The terroir of Zunyi is considered to be important to the production of high-quality baijiu, with its unique combination of geographical, geological, and climatic factors, the region is known for producing the finest sauce aroma baijiu in China. A growing appetite for baijiu produced in Zunyi has made the region's production capacity more scarce and valuable. In recent years, many small baijiu production plants were requested to shut down by local government due to improper production and waste disposal protocols. Under this condition, sizable production capacity in Guizhou, a place that is widely perceived by the industry as the best place for brewing sauce aroma baijiu, has an important competitive edge for baijiu manufacturers, as companies with advantageous geographical locations are more likely to brew higher-quality baijiu. However, it is difficult for new industry entrants to obtain permits from the local government to build additional production facilities, due to the recent issuance of "Protection Regulations of the Guizhou Province Chishui River Basin Sauce Aroma Baijiu Production Environment" by Guizhou Standing Committee of the People's Congress, the sites which allow for production of sauce aroma baijiu in Guizhou is becoming much harder to find thus creating a production capacity barrier. By the end of 2022, *Zhen Jiu* ranked fourth and third among all sauce aroma baijiu brands in China and in Guizhou, respectively, in terms of annual production capacity of base liquor. With sizable production capacity, our Group could quickly meet the increasing consumer demand. Going forward, to capture attractive market opportunities, our Group will continue to expand our production capacity.

(iii) Capital Investment

Significant capital investment is necessary in the baijiu industry. This is mainly because the baijiu manufacturers need a large amount of capital for the construction of factories, the early procurement of upstream raw materials and the storage of base liquor for better taste and quality. Moreover, it is costly to continuously improve the production line efficiency and enhance the production techniques to meet the changing demand of downstream markets. Substantial capital is critical for baijiu manufacturers to build and maintain their leading market positions. Therefore, new entrants without sufficient capital are difficult to enter and compete with existing companies in this industry.

(iv) Sales Channel

Extensive and multi-channels of sales network can help companies in the baijiu industry to sell products across the country. The collaborative relationship between baijiu manufacturers and consumers is mostly long-term, which allows excellent baijiu manufacturers to establish a solid customer base and set up a high barrier to new entrants. New entrants would have to compete against experienced players who have mature and extensive networks, and would not be able to build close relationships and networks in a short time.

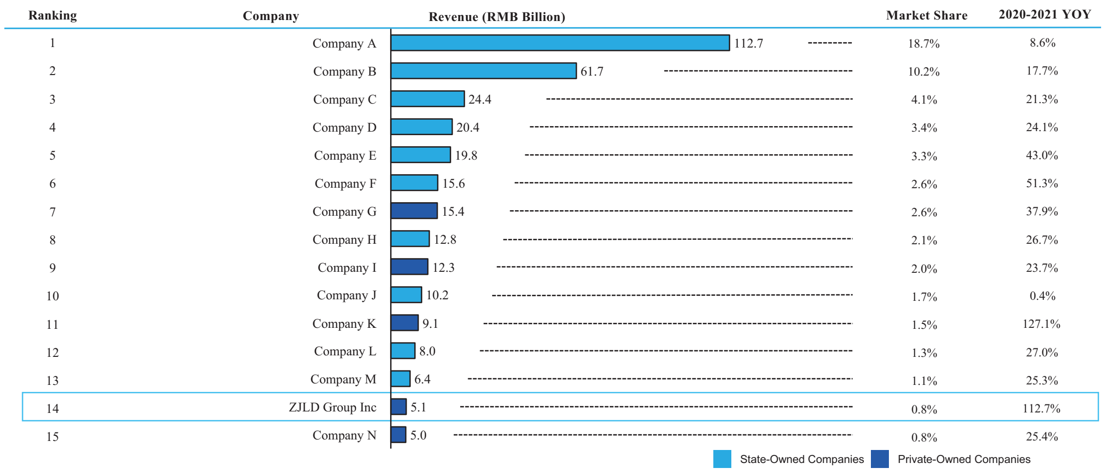
(v) Talents and Management Team

The talents in the baijiu industry include baijiu experts and experienced management personnel. Product development ability is a core competitive edge, which mainly relies on the experts to research and develop advanced production techniques as well as product recipe. Companies have different formulae to produce baijiu, which lead to distinct flavors of baijiu. The special formula is also the company's core competitiveness. Besides, experienced founder and professional management team can promote baijiu companies to better operate their business with efficient operational processing and strategic planning. Without experts with extensive industry knowledge and the professional management team with rich experience, it is difficult for new entrants to quickly form competitive advantages to compete with the leading baijiu companies.

COMPETITIVE LANDSCAPE

In 2021, the market size of baijiu industry in China reached RMB603.3 billion. The top fifteen companies accounting for a total market share of 56.2% by revenue in 2021. Our Group ranked the fourteenth among the market participants and accounting for a market share of 0.8% of China's baijiu industry in terms of revenue in 2021.

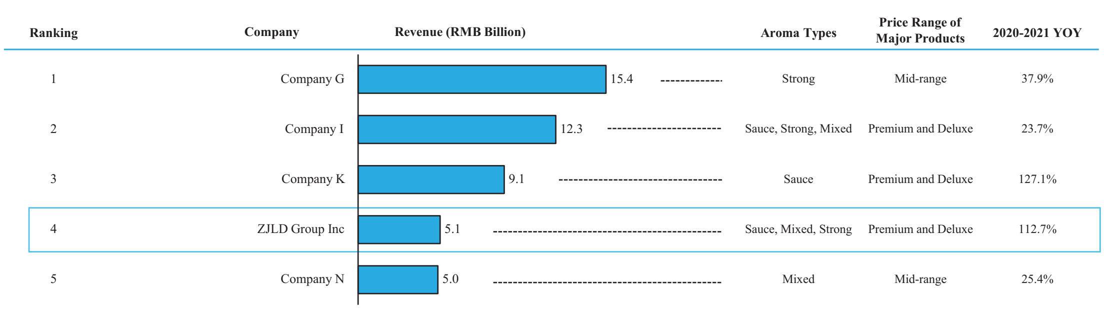
Top Fifteen Companies in Baijiu Industry by Revenue (China), 2021



Source: Frost & Sullivan Analysis

With revenue of RMB5.1 billion, our Group ranked fourth among privately-owned companies in terms of revenue in China and is also the third largest company in terms of revenue that offer three aroma types baijiu products in China's baijiu industry in 2021. The Company's products range from sauce aroma, mixed aroma to strong aroma covering nearly 85% of the entire baijiu industry in China.

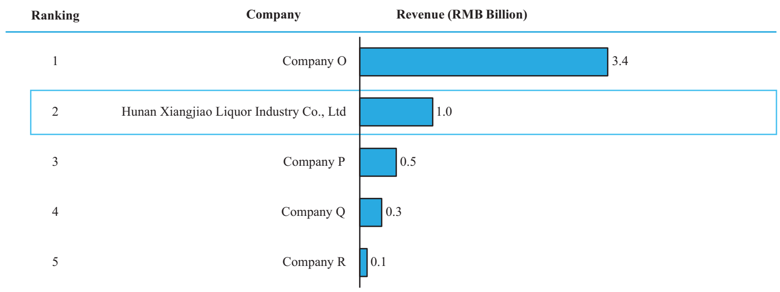
Top Five Privately-owned Companies of Baijiu Industry by Revenue (China), 2021



Source: Frost & Sullivan Analysis

In 2021, the market size of baijiu industry in Hunan province by revenue was among the top ten provincial areas in China, reaching approximately RMB32.0 billion. Hunan Xiangjiao Liquor Industry Co., Ltd. was the second largest Hunan baijiu company in terms of revenue in 2021.

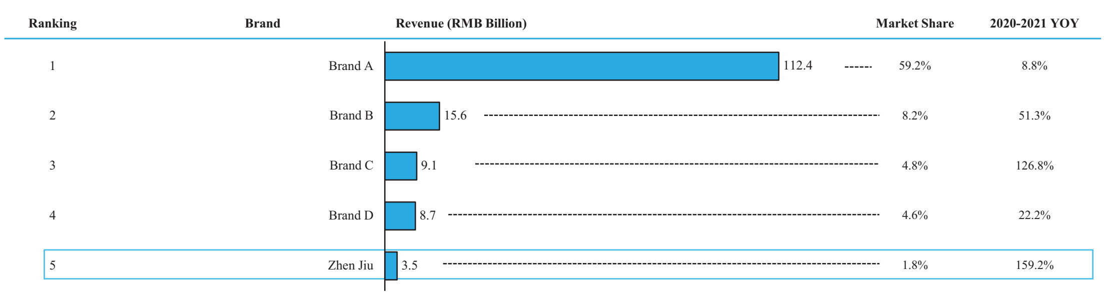
Top Five Hunan Baijiu Companies by Revenue, 2021



Source: Frost & Sullivan Analysis

The baijiu industry in China is an industry with massive size and separation of market players, which are clearly delineated by geographic region, price range and types of aroma. In 2021, the market size of the sauce aroma baijiu industry in China by revenue reached RMB190.0 billion. The sauce aroma baijiu industry in China was concentrated with the top five brands accounting for a total market share of 78.6% in 2021. The revenue of *Zhen Jiu* was RMB3.5 billion in 2021, ranking the fifth among market participants and accounting for a total market share of 1.8% of the sauce aroma baijiu industry in China by revenue. *Zhen Jiu* also ranked first among the top five brands of sauce aroma baijiu industry in China in terms of growth rate of revenue from 2020 to 2021. By the end of 2022, *Zhen Jiu* ranked fourth and third among all sauce aroma baijiu brands in China and in Guizhou, respectively, in terms of annual production capacity of base liquor.

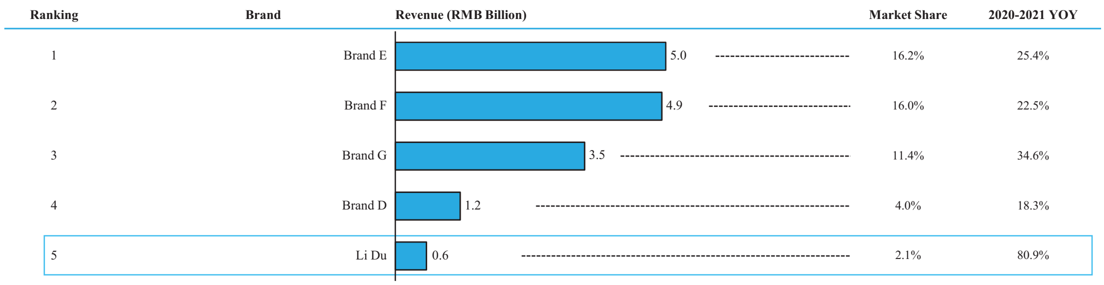
Top Five Brands of Sauce Aroma Baijiu Industry by Revenue (China), 2021



Source: Frost & Sullivan Analysis

In 2021, the market size of mixed aroma baijiu industry in China reached RMB30.7 billion, with top five brands occupying 49.8% of the entire mixed aroma baijiu industry. *Li Du* ranked fifth with a market share of 2.1% among mixed aroma baijiu brands in China. Compared to the other four brands, *Li Du* holds the fastest yearly revenue growth rate of 80.9% from 2020 to 2021.

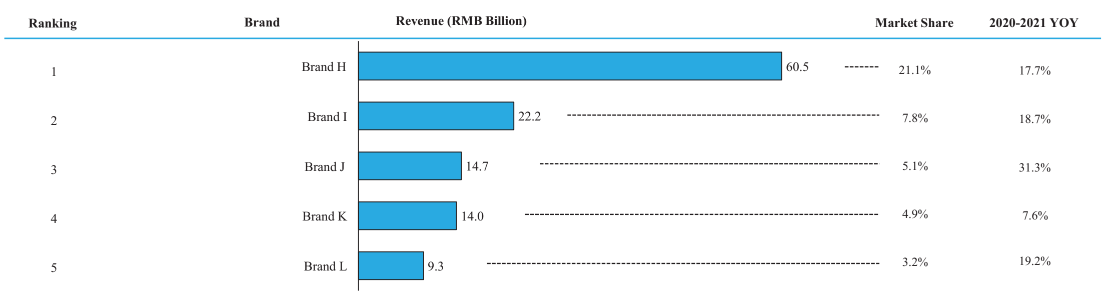
Top Five Brands of Mixed Aroma Baijiu Industry by Revenue (China), 2021



Source: Frost & Sullivan Analysis

In 2021, the market size of strong aroma baijiu industry in China reached RMB286.2 billion, with top five brands occupying 42.2% of the entire strong aroma baijiu industry.

Top Five Brands of Strong Aroma Baijiu Industry by Revenue (China), 2021



Source: Frost & Sullivan Analysis

Notes:

(1) Company A's main product line include sauce aroma baijiu. It is a nationwide state-owned company established in 1999 and a listed company in Shanghai Stock Exchange headquartered in Guizhou. Brand A belongs to Company A.

(2) Company B's main product line include strong aroma baijiu. It is a nationwide state-owned company established in 1998 and a listed company in Shenzhen Stock Exchange headquartered in Sichuan. Brand H belongs to company B.

(3) Company C's main product line include strong aroma baijiu. It is a nationwide state-owned company established in 2002 and a listed company in Shenzhen Stock Exchange headquartered in Jiangsu. Brand I belongs to company C.

(4) Company D's main product line include strong aroma baijiu. It is a nationwide state-owned company established in 1995 and a listed company in Shenzhen Stock Exchange headquartered in Sichuan. Brand K belongs to company D.

(5) Company E's main product line include light aroma baijiu. It is a nationwide state-owned company established in 1985 and a listed company in Shanghai Stock Exchange headquartered in Shanxi.

(6) Company F's main product line include sauce aroma baijiu. It is a nationwide state-owned company established in 2000 and an unlisted company headquartered in Guizhou. Brand B belongs to Company F.

(7) Company G's main product line include strong aroma baijiu. It is a nationwide private-owned company established in 1996 and an unlisted company headquartered in Sichuan. Brand J belongs to company G.

(8) Company H's main product line include strong aroma baijiu. It is a nationwide state-owned company established in 1999 and a listed company in Shenzhen Stock Exchange headquartered in Anhui. Brand L belongs to company H.

(9) Company I's main product line include sauce, strong and mixed aroma baijiu. It is a nationwide private-owned company established in 2007 and an unlisted company headquartered in Sichuan. Brand D belongs to Company I.

(10) Company J's main product line include light aroma baijiu. It is a nationwide state-owned company established in 1998 and a listed company in Shenzhen Stock Exchange headquartered in Beijing.

(11) Company K's main product line include sauce aroma baijiu. It is a nationwide private-owned company established in 2001 and an unlisted company headquartered in Guizhou. Brand C belongs to Company K.

(12) Company L's main product line include feng aroma baijiu. It is a nationwide state-owned company established in 1999 and an unlisted company headquartered in Shaanxi.

(13) Company M's main product line include strong aroma baijiu. It is a nationwide state-owned company established in 1997 and a listed company in Shanghai Stock Exchange headquartered in Jiangsu.
(14) Company N's main product line include mixed aroma baijiu. It is a nationwide private-owned company established in 2002 and a listed company in Shanghai Stock Exchange headquartered in Anhui. Brand E belongs to Company N.
(15) Company O's main product line include fragrance aroma baijiu. It is a nationwide state-owned company established in 1997 and a listed company in Shenzhen Stock Exchange headquartered in Hunan.
(16) Company P's main product line include sauce aroma baijiu. It is a regional state-owned company established in 2004 and an unlisted company headquartered in Hunan.
(17) Company Q's main product line include sauce, strong and mixed aroma baijiu. It is a regional private-owned company established in 1993 and an unlisted company headquartered in Hunan.
(18) Company R's main product line include sauce and mixed aroma baijiu. It is a regional private-owned company established in 2006 and an unlisted company headquartered in Hunan.
(19) Brand A's main product line includes sauce aroma baijiu. It belongs to a nationwide state-owned company established in 1999. The company is listed in Shanghai Stock Exchange and is headquartered in Guizhou.
(20) Brand B's main product line includes sauce aroma baijiu. It belongs to a nationwide state-owned company established in 2000. The company is unlisted and is headquartered in Guizhou.
(21) Brand C's main product line includes sauce aroma baijiu. It belongs to a nationwide private-owned company established in 2001. The company is unlisted and is headquartered in Guizhou.
(22) Brand D's main product line includes sauce, strong and mixed aroma baijiu. It belongs to a nationwide private-owned company established in 2007. The company is unlisted and is headquartered in Sichuan.
(23) Brand E's main product line includes mixed aroma baijiu. It belongs to a nationwide private-owned company established in 2002. The company is listed in Shanghai Stock Exchange and is headquartered in Anhui.
(24) Brand F's main product line includes mixed aroma baijiu. It belongs to a nationwide private-owned company established in 1994. The company is unlisted and is headquartered in Hubei.
(25) Brand G's main product line includes mixed aroma baijiu. It belongs to a nationwide private-owned company established in 2004. The company is unlisted and is headquartered in Henan.
(26) Brand H's main product line includes strong aroma baijiu. It belongs to a nationwide state-owned company established in 1998. The company is listed in Shenzhen Stock Exchange and is headquartered in Sichuan.
(27) Brand I's main product line includes strong aroma baijiu. It belongs to a nationwide state-owned company established in 2002. The company is listed in Shenzhen Stock Exchange and is headquartered in Jiangsu.
(28) Brand J's main product line includes strong aroma baijiu. It belongs to a nationwide private-owned company established in 1996. The company is unlisted and is headquartered in Sichuan.
(29) Brand K's main product line includes strong aroma baijiu. It belongs to a nationwide state-owned company established in 1995. The company is listed in Shenzhen Stock Exchange and is headquartered in Sichuan.
(30) Brand L's main product line includes strong aroma baijiu. It belongs to a nationwide state-owned company established in 1999. The company is a listed company in Shenzhen Stock Exchange and is headquartered in Anhui.

IMPACT OF COVID-19

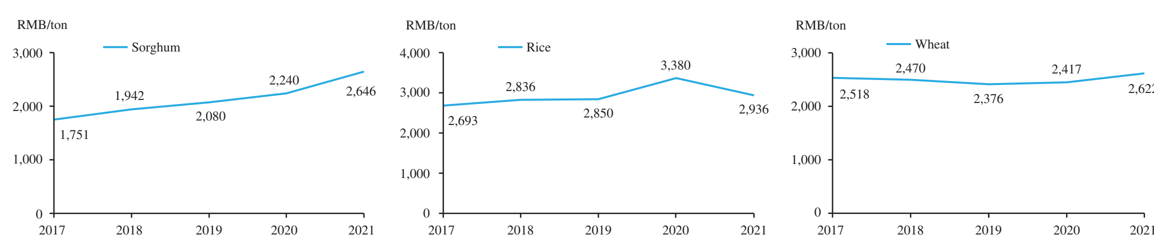
The outbreak of COVID-19 since the end of 2019 has significantly affected the global economy. In response to the pandemic, countries and regions across the world, including China, have imposed measures such as lockdowns and travel restrictions to contain the spread of the virus. The impacts of the COVID-19 differ across China. Throughout 2022, cities across China have experienced more frequent and wider-spread on-and-off lockdowns as the result of COVID-19 cases spiking in certain areas of the country. Unlike the circumstances in 2021, China has had 152 cities under full or partial lock-downs between March and October 2022, impacting more than 280 million people. Among these cities, many cities have experienced lock-downs for more than 30 days, for example, Shanghai, as the most prosperous city in China, has experienced a three-month city-wide lock-down between March and June 2022 and has subsequently experienced partial lock-downs from June 2022 on-wards. These temporary lockdowns have impacted local economy as it sparked uncertainty around when and where the lockdown will be imposed, indirectly affecting the demand for baijiu products. On the other hand, the impacts of the COVID-19 pandemic also differ across the baijiu industry. The impact severity was largely contributed by the social factor behind the baijiu consumption, as consumers generally purchasing baijiu products for social events. With the implementation of stay-at-home orders, the consumption of baijiu products has decreased substantially, which may flatten the compounded annual growth rate of baijiu companies. As government has lifted the COVID-19 restrictions in December 2022, confirmed case is likely to peak around late 2022 and early 2023, resulting in the temporal decrease of consumer demand. However, the consumer demand for baijiu products, especially premium and deluxe baijiu products, will recover as people return to normal daily activities, restoring back to pre-pandemic level. Confidence among the distributors have restored along with consumer demand and distributors are generally optimistic about the future of premium and deluxe baijiu industry. As the result, distributors plan to place orders and stock up on premium and deluxe baijiu products, accelerating the growth of the baijiu industry.

MAJOR RAW MATERIAL AND COST ANALYSIS

The major costs of the baijiu industry include labor cost, raw materials and packaging materials. The average annual salary of employees in the baijiu industry has increased from RMB42.1 thousand per year in 2016 to RMB57.9 thousand per year in 2020, representing a CAGR of 83%. The raw materials of baijiu are mainly sorghum, rice and wheat, which are fundamental for people's livelihood. In recent years, affected by international market, political relationship, and national natural disasters, the prices of raw materials have shown an upward trend.

The average price of sorghum has risen from RMB1,751 per ton in 2017 to RMB2,646 per ton in 2021. Also in 2021, the average price of rice and wheat was RMB2,936 and RMB2,622 per ton. The average prices of sorghum, of rice and wheat have demonstrated a rise in 2020, mainly affected by the pandemic and the increasing downstream demand.

Raw Material Price (Sorghum, Rice and Wheat), 2017-2021

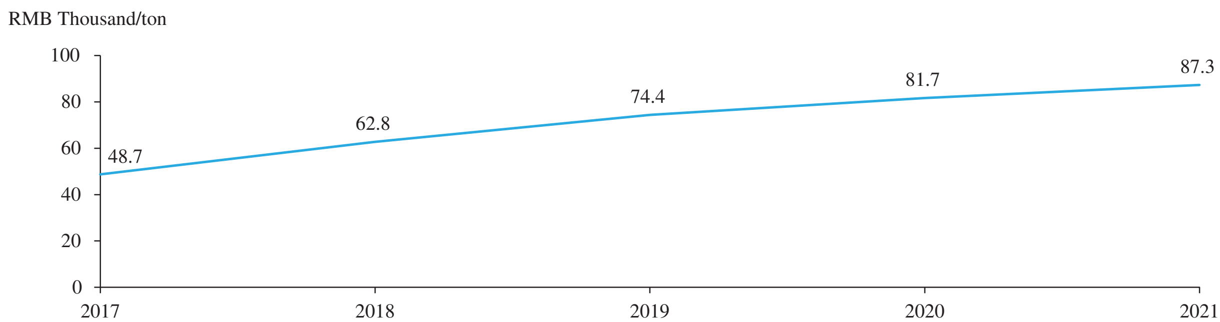


Source: Frost & Sullivan Analysis

The major packaging materials of baijiu products include glass bottle and cardboard box. The average price of glass increased from RMB70.8 per weight box in 2017 to RMB119.8 per weight box in 2021, with a CAGR of 14.1%. This increase was primarily caused by the rising cost of raw materials such as thermal coal, soda ash, and quartz sand, as well as shortages in production capacities. As the raw material for cardboard box, the average price of corrugated paper maintained relatively stable, slightly increased from RMB4,039.6 per ton in 2017 to RMB4,175.2 per ton in 2021, at a CAGR of 0.8%.

As the result of cost increase (including material cost, labor cost and packaging cost) as well as the ongoing trend of premiumization, the average ex-factory price of baijiu products have continuously increased, representing a CAGR of 15.7% between 2017 and 2021.

Price Trend of Baijiu Products in China, 2017-2021



Source: National Bureau of Statistics of China, Frost & Sullivan Analysis

The following is a brief summary of the laws and regulations in the PRC that currently materially affect our Group and our operations. The principal objective of this summary is to provide potential investors with an overview of the key laws and regulations applicable to us. This summary does not purport to be a comprehensive description of all the laws and regulations applicable to the business and operations of our Group and/or which may be important to potential investors. Investors should note that the following summary is based on laws and regulations in force as at the date of this prospectus, which may be subject to change.

LAWS AND REGULATIONS ON FOOD SAFETY, FOOD PRODUCTION AND LICENSING REQUIREMENT FOR FOOD OPERATION

Food Business Licensing System

In accordance with the Food Safety Law of the PRC (《中華人民共和國食品安全法》, the "**Food Safety Law**") as effective on June 1, 2009 and most recently amended on April 29, 2021, the State Council implemented a licensing system for food production and trading activities. A person or entity who engages in food production, food selling or catering services shall obtain the license in accordance with the Food Safety Law. The Implementation Rules of the Food Safety Law of the PRC (《中華人民共和國食品安全法實施條例》), as effective on July 20, 2009 and last amended on October 11, 2019, further specifies the detailed measures to be taken for food producers and business operators and the penalties that shall be imposed should these required measures not be implemented.

The General Administration of Quality Supervision, Inspection and Quarantine of the PRC, which has been integrated to form the State Administration for Market Regulation of the PRC (the "**SAMR**") promulgated the Measures for the Administration of Food Production Licensing (《食品生產許可管理辦法》) on April 7, 2010 and last amended on January 2, 2020 with effect from March 1, 2020. The Measures for the Administration of Food Production Licensing specifies that the validity term for a food production license is 5 years. If the enterprise that has the food production license needs to extend the validity term of its legally obtained food production license, it shall file an application for replacement of the license with the original licensing authority within 30 business days prior to the expiry of the validity term of the food production license. Where no application is filed for extension of the license upon expiry of the validity term, the original licensing authority shall conduct the cancelation procedures of the food production license.

On August 31, 2015, the China Food and Drug Administration (the "**CFDA**", now merged into the SAMR) promulgated the Administrative Measures for Food Operation Licensing (《食品經營許可管理辦法》), which was amended on November 17, 2017. According to the Administrative Measures for Food Operation Licensing, a person or entity that engages in food selling and catering services within PRC (herein after referred to in general as "**Food Operator**") shall obtain a food operation license in accordance with the law. Food Operators engaging at different location or venues must obtain separate food operation licenses for each venue under the principle of one license for one site. Food and drug administrative authorities shall implement classified licensing for food operation according to Food Operators' types of operation and the degree of risk of their operation projects. The food operation license is valid for 5 years upon its issuance. If the licensing items which are indicated on a food operation license change, the Food Operator shall, within 10 business days after the changes take place, apply with the relevant authority which originally issued the license for alteration of the operation license.

Food Recall System

In March 11, 2015, the CFDA promulgated and amended the Administrative Measures for Food Recall (《食品召回管理辦法》), which became effective on September 1, 2015, amended on October 23, 2020. According to the Administrative Measures for Food Recall, food producers and operators shall be the primary persons legally liable for food safety by establishing sound and relevant management system, collecting, analyzing food safety information and being legally liable to the obligations of ceasing to produce, operate, recall and dispose of unsafe foods. Where food producers or operators find that the food being sold is unsafe, they must immediately suspend the production or operation, inform related food producers and operators to stop producing and operating, urge the customers to stop consumption by way of notices or announcements and take necessary measures to prevent food safety risks. Food producers knowing that any food produced or traded is unsafe must proactively recall such food. After knowing of that food producers recall unsafe food, food operators should immediately adopt the measures such as ceasing to purchase, sell, sealing up unsafe food, posting the recall announcement issued by the producers in prominent position of operation premises, and cooperating with food producers to start recalling. Where food producers or operators violate the Administrative Measures for Food Recall and do not immediately suspend production or operation, or do not proactively recall unsafe food, the market regulatory department shall issue warnings to them and impose fines between RMB10,000 and RMB30,000. Where food operators violate the Administrative Measures for Food Recall by not cooperating with food producers to recall unsafe food, the market regulatory department shall issue warnings to them and impose fines between RMB5,000 and RMB30,000.

Personnel Health Management System

In accordance with the Food Safety Law, food producers and operators shall establish and implement a personnel health management system. Personnel suffering from any disease that affects food safety according to the regulations of the health administration department under the State Council shall not engage in work that involves contact with ready-to-eat food. Personnel who engage in work that involves contact with ready-to-eat food shall have physical check-up each year and shall obtain health certificates prior to working.

Online Food Safety

According to the Measures for the Supervision and Administration of Online Transactions (《網絡交易監督管理辦法》) promulgated by the SAMR on March 15, 2021 and became effective on May 1, 2021, online transaction operators shall disclose product or service information comprehensively, truthfully, accurately, and in a timely manner to protect consumers' right to knowledge and choice. Online transaction operators who engage in online transaction activities through online social networking, webcasting, and other online services shall display goods or services, their actual business entities, after-sales service and other information, or the link identification of the above-mentioned information in a conspicuous manner.

According to the Measures on the Punishments and Disciplinary Actions for Online Food Safety (《網絡食品安全違法行為查處辦法》) promulgated by the CFDA on July 13, 2016 and last amended on April 2, 2021 which came into effect on June 1, 2021, the SAMR takes charge of the supervision and guidance of the investigation and punishment on illegal conducts concerning online food safety nationwide, and the local market regulatory authorities at and above the county level take charge of the investigation and punishment on illegal conducts concerning online food safety within their administrative regions.

Production Safety

Pursuant to the Production Safety Law of the PRC (《中華人民共和國安全生產法》), which was promulgated by the SCNPC on June 29, 2002, taking effect from November 1, 2002 and amended on August 27, 2009, August 31, 2014 and June 10, 2021 respectively, the containers or transportation tools of hazardous substances that any production and operation entity uses must, according to the relevant provisions of the State, be manufactured by specialized production entities, and may only be put into use after they have passed the inspections and tests by institutions that are equipped with professional qualifications, and have obtained a certificate for safe use or a mark of safety label. In addition, the production, operation, transportation, storage, use of dangerous substances or the disposal of abandoned dangerous substances shall be subject to approval by, as well as the supervision and management of the relevant administrative departments according to the provisions of the relevant laws and regulations, national standards, or industrial standards.

Pursuant to the Law of the PRC on the Safety of Special Equipment (《中華人民共和國特種設備安全法》), which was promulgated by the SCNPC on June 29, 2013 and took effect from January 1, 2014, and the Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》), which was promulgated by the State Council on March 11, 2003, took effect from June 1, 2003, and was amended on January 24, 2009 with effect from May 1, 2009, "special equipment" refers to boilers, pressure vessels, pressure pipelines, elevators, cranes, passenger ropeways, large amusement facilities and in-plant (in-factory) motor vehicles which threat the personal and property safety. The users shall, prior to or within 30 days after putting such special equipment into use, register with competent departments for safety supervision and administration, obtain a use registration certificate and place it in a conspicuous position of the special equipment. Furthermore, operators and the relevant managerial staff of boilers, pressure vessels, elevators, cranes, passenger ropeways, large amusement devices and in-plant (in-factory) motor vehicles shall not engage in corresponding operation or management until they have passed the examination as required by the State and acquired certificates for operators of special equipment.

Consumer Protection

Pursuant to the Civil Code of the PRC (《中華人民共和國民法典》), promulgated by the National People's Congress of the PRC (the "**NPC**") on May 28, 2020 and became effective on January 1, 2021, in the event of damages caused to other party due to product defect, the infringed party may seek compensation from the manufacturer of the products or from the seller of the products and shall have the right to request the manufacturer and the seller to bear tortious liability such as cessation of infringement, removal of obstruction, elimination of danger, etc.

Pursuant to the Law of the PRC on the Protection of Consumers' Right and Interests (《中華人民共和國消費者權益保護法》) promulgated by the SCNPC on October 31, 1993 and further amended on October 25, 2013 and implemented on March 15, 2014, and the PRC Law on Products Quality (《中華人民共和國產品質量法》) promulgated by the SCNPC on February 22, 1993 and last amended on December 29, 2018, consumers or other victims who suffer personal injury or property losses due to product defects may demand compensation from the producer as well as the seller. Nevertheless, if the responsibility for product defects lies with the producer, the sellers have the right to recover such compensation from the producer if they take the responsibility and make the compensation, and vice versa. Violations of the PRC Law on Products Quality may result in the imposition of fines. In addition, the seller or producer may be ordered to suspend operation and its business license may be revoked. Criminal liability may be incurred in serious cases.

REGULATIONS ON "SANGONG CONSUMPTION POLICY" AND "SANPIN STRATEGY"

According to the Regulation on the Administration of the Institutional Affairs of Government (《機關事務管理條例》) issued by the State Council on June 28, 2012 and became effective on October 1, 2012, governments shall release the disbursements for official receptions, the purchase and operation of vehicles used for official business and overseas travel for official business (the "Sangong Consumption" (三公消費)) on a regular basis. In 2012 and 2013, the Political Bureau of the CPC Central Committee, the General Office of the CPC Central Committee and the General Office of the State Council introduced "The Eight Requirements" and "The Six Injunctions" (collectively as the "**Sangong Consumption Policy**" (三公消費政策)) to restrict the "Sangong Consumption" (三公消費) and minimize extravagant spending by government officials and reducing bureaucratic visits and meetings. Moreover, the Notice of the Ministry of Finance on Strengthening the Management of the "Sangong Consumption" and Strictly Controlling the General Expenditure (《財政部關於加強"三公"經費管理嚴控一般性支出的通知》) issued by the Ministry of Finance on September 24, 2022 restates to strengthen the monitoring of "Sangong Consumption."

On May 26, 2016, the General Office of the State Council announced the Several Opinions on Carrying out the 'Sanpin' Special Action of the Consumer Goods Industry (《關於開展消費品工業"三品"專項行動營造良好市場環境的若干意見》, the "**Sanpin strategy**"), which aims to regulate the market for consumer goods.

The "Sangong Consumption Policy" and "Sanpin strategy" have had an impact on China's baijiu industry. The "Sangong Consumption Policy", which restricts government departments from incurring high administrative expenses for official receptions, purchases, and business trips, has led to a decrease in baijiu consumption by government officials. Additionally, the "Sanpin strategy" action, which aims to regulate the market for consumer goods, has further impacted the baijiu industry.

LAWS AND REGULATIONS ON FOOD ADVERTISEMENT

According to the Advertising Law of the PRC (《中華人民共和國廣告法》) promulgated by the SCNPC on October 27, 1994 and most recently revised on April 29, 2021, advertisement shall not contain any false or misleading information, and shall not deceive or mislead customers. Each advertiser, advertising agent or advertisement publisher shall, when engaging in advertising activities, comply with laws and regulations, act in good faith, and conduct fair competition. In any advertisement, where there are statements regarding the performance, function, place of origin, use, quality, ingredients, price, producer, valid period and guarantees of the product, or the content, provider, form, quality, price and guarantees of the service, such statements shall be accurate, clear and explicit. Where a false advertisement is published in violation of the provisions of the Advertising Law of the PRC, the market regulatory department shall order cessation of publishing the advertisement, order the advertiser to eliminate adverse effects within the corresponding extent, and impose a fine of not less than 3 nor more than 5 times the advertising expenses on it or if the advertising expenses are incalculable or evidently low, a fine of not less than RMB200,000 nor more than RMB1 million on it.

REGULATIONS ON FOOD LABEL

Pursuant to the Administrative Measures on Food Label (《食品標識管理規定》) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC on August 27, 2007, and later revised and implemented on October 22, 2009, the food label shall state the name, production place, production date, expiry date, storage condition, net content, list of ingredients, the product standard code and manufacturer's registered name, address and contact information. Further, for the food which requires the production license, the label should state its food production license number.

LAWS AND REGULATIONS ON ANTI-UNFAIR COMPETITION LAW AND ANTI-MONOPOLY

Anti-Unfair Competition Law

Competitions among the operators are generally governed by the Law of the PRC for Anti-Unfair Competition (《中華人民共和國反不正當競爭法》, the "**Anti-Unfair Competition Law**"), which was promulgated by the SCNPC on September 2, 1993, took effect from December 1, 1993 and was amended on November 4, 2017 and April 23, 2019. According to the Anti-Unfair Competition Law, when trading in the market, operators should abide by the principles of voluntariness, equality, fairness and credibility, and abide by laws and recognized business ethics. Operating in violation of the Anti-Unfair Competition Law, disrupting the competition order, and infringing the legitimate rights and interests of other operators or consumers, constitute unfair competition. When the legitimate rights and interests of an operator are damaged by unfair competition, it may start a lawsuit in the people's court. In contrast, if an operator violates the provisions of the Anti-Unfair Competition Law, engages in unfair competition and causes damage to another operator, it shall be liable for damages. If the damage suffered by the injured operator is difficult to assess, the amount of damages shall be the profit obtained by the infringer through the infringement. The infringer shall also bear all reasonable expenses paid by the infringed operator to stop the infringement.

Anti-Monopoly Law

According to the PRC Anti-Monopoly Law (《中華人民共和國反壟斷法》) promulgated by the SCNPC on August 30, 2007, took effect on August 1, 2008 and recently amended on June 24, 2022 with effect from August 1, 2022, monopolistic activities shall include: (i) monopolistic agreements between undertakings; (ii) abuse of dominant market position by undertakings; and (iii) concentration of undertakings which has or may have an effect of eliminating or restricting competition. The PRC Anti-Monopoly Law further stipulates that undertakings which hold dominant market position shall not abuse their dominant market position by taking advantage of data, algorithms, technology and platform rules and the state will strengthen anti-monopoly regulatory forces and enhance enforcement and judicature of the PRC Anti-Monopoly Law.

Where an undertaking has violated the provisions in effect by entering into and implementing a monopolistic agreement, the anti-monopoly enforcement agency may order the undertaking to stop the illegal act and confiscate the illegal income and impose a fine ranging from 1% to 10% of the sale amount of the preceding year. Where a monopolistic agreement has been entered into but has not been implemented, a fine of not more than RMB3 million may be imposed. Where an undertaking has voluntarily reported the relevant activities of entering into a monopolistic agreement to the anti-monopoly enforcement agency and provided important evidence, the anti-monopoly enforcement agency may, at its discretion, reduce or waive the punishment for such an undertaking. Where an undertaking has violated the provisions in relation to entering into and implementing a monopolistic agreement and has no sale amount in the preceding year, the anti-monopoly enforcement agency may impose a fine of not more than RMB5 million. Where the legal representative, principal and directly responsible person of an undertaking are personally responsible for entering into a monopolistic agreement, a fine of not more than RMB1 million may be imposed.

LAWS AND REGULATIONS ON ENVIRONMENTAL PROTECTION

General Laws

According to the Environmental Protection Law of the PRC（《中華人民共和國環境保護法》), which was promulgated by the SCNPC on December 26, 1989 and last amended on April 24, 2014, (i) any entity that discharges pollutants must establish environmental protection system and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gasses, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces; (ii) enterprises, public institutions and other producers and operators that implement the pollution discharge license management shall discharge pollutants according to the requirements of the pollution discharge license.

Law on Environment Impact Assessment

Pursuant to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) issued by the SCNPC on October 28, 2002 and most recently amended on December 29, 2018, the State implements classification management of the environmental of construction projects according to the degree of impact of the construction projects on the environment. Constructing entities shall prepare an environmental impact report, an environmental impact report form, or should fill in an environmental impact registration form (hereinafter collectively referred to as "**Environmental Impact Assessment Documents**") in accordance with the following provisions: (i) for projects with potentially serious environmental impact, an environmental impact report shall be prepared to provide a comprehensive assessment of their environmental impact; (ii) for projects with potentially mild environmental impact, an environmental impact report form shall be prepared to provide an analysis or specialized assessment of their environmental impact; and (iii) for projects with minimal environmental impact, no environmental impact assessment is required but an environmental impact registration form shall be completed. Construction entities whose Environmental Impact Assessment Documents for a construction project which have not been examined by the approval authority in accordance with the law or have not been approved after examination shall not commence construction. During the construction of a construction project, the construction entity shall simultaneously adopt the environmental protection countermeasures proposed in the Environmental Impact Assessment Documents approved. In the event that there are significant changes to the nature, scale, venue, production techniques used or measures adopted in the construction project to prevent and control the pollution or ecological damage after an approval for the Environmental Impact Assessment Documents is obtained, the construction entity shall resubmit the Environmental Impact Assessment Documents of the construction project for approval.

According to the Catalog for the Classified Administration of the Environmental Impact Assessment of Construction Projects (2021 Edition) (《建設項目環境影響評價分類管理名錄(2021年版)》), construction projects with regard to the baijiu industry whose annual capacity exceeds 1,000 kiloliters is required to prepare an environmental impact report.

Law on the Environmental Protection of Construction Projects

According to relevant requirements of the Management Regulations of Environmental Protection of Construction Project (《建設項目環境保護管理條例》), which was promulgated by the State Council on November 29, 1998 and last amended on July 16, 2017 with effect from October 1, 2017, where the preparation of the environmental impact report or environmental impact report form is required for a construction project under the law, prior to commencement of construction, the construction entity shall submit the environmental impact report and the environmental impact report form for approval to the competent administrative department of environmental protection with approval authority. Where the environmental impact assessment documents of a construction project are not reviewed by the competent approval authority or, upon review, are not approved, the construction entity must not commence construction. Construction of ancillary environmental protection facilities required by construction projects shall be designed, constructed and commence production and operation at the same time as the main project. The construction entity shall, after the completion of the construction projects requiring the preparation of the environmental impact report or environmental impact report form, conduct acceptance inspection of the environmental protection facilities and prepare acceptance inspection report in accordance with the standards and procedures prescribed by the environmental protection administrative department. A construction project requiring the preparation of the environmental impact report or the environmental impact report form shall not commence production or operation until the environmental protection facilities have passed the acceptance inspection. Any project that has not received acceptance inspection or has failed to pass the acceptance inspection shall not commence production or operation. According to the Management Regulations of Environmental Protection of Construction Project, where the construction project is put into production or use when the environmental protection facilities have not undergone acceptance inspection or do not pass acceptance inspection, the relevant governmental authority of environmental protection shall order the construction entity to make correction within a prescribed period and impose a fine ranging from RMB200,000 to RMB1 million; where correction is not made within the prescribed, a fine ranging from RMB1 million to RMB2 million shall be imposed; where the construction project causes significant environmental pollution or ecological damage, the production or use shall be suspended, or the project shall be closed down upon approval by the relevant people's government.

Law on Water Drawing

The PRC Water Law (《中華人民共和國水法》), promulgated by the SCNPC dated January 21, 1988 and effective from July 1, 1988 and latest amended and implemented on July 2, 2016, and the Administrative Measures for the License for Water Drawing (《取水許可管理辦法》) promulgated by the Ministry of Water Resources on April 9, 2008 and latest amended on December 22, 2017 states that the direct usage of water from natural sources such as rivers, lakes or underground water shall comply with the license system of water drawing and, except for the circumstances prescribed in laws and regulations, shall apply for a license for water drawing and pay for the water resource fees. Further, according to the Regulation on the Administration of the License for Water Drawing and the Levy of Water Resource Fees

(《取水許可和水資源費徵收管理條例》) promulgated by the State Council on February 21, 2006 and effective from April 15, 2006 and further amended and implemented on March 1, 2017, enterprises and individuals with the license for water drawing shall draw water according to the approved annual water drawing plan. If the water drawing exceeds the plan or quota, water resource fee shall be charged progressively on the excessive part.

Laws on Prevention and Control of Various Pollutions

According to the Law on Prevention and Control of Water Pollution of the PRC (《中華人民共和國水污染防治法》), which was promulgated by the SCNPC on May 11, 1984, and last amended on June 27, 2017, enterprises that discharge industrial wastewater or medical sewage directly or indirectly into water bodies shall obtain a pollutant discharging license.

According to the Law on Air Pollution Prevention and Control of the PRC (《中華人民共和國大氣污染防治法》), which was promulgated by the SCNPC on September 5, 1987, and last revised on October 26, 2018 with effect from the same day, the environmental protection departments of local people's governments at or above the county level shall implement unified supervision and management of air pollution prevention and control. Enterprises that discharge industrial waste gas shall obtain pollutant discharge licenses and shall monitor the air pollutants emitted themselves in accordance with relevant provisions and monitoring norms of the State, and preserve the original monitory records.

On December 24, 2021, the SCNPC promulgated the Law on the Prevention and Control of Noise Pollution of the PRC (《中華人民共和國噪聲污染防治法》), which came into effect on June 5, 2022 and replaced the Law on the Prevention and Control of Environmental Noise Pollution of the PRC (《中華人民共和國環境噪聲污染防治法》) simultaneously. Pursuant to the Law on the Prevention and Control of Noise Pollution of the PRC, enterprises, public institutions and other producers and business operators that emit industrial noise shall take effective measures to reduce vibration and noise and obtain a pollutant discharge license or fill in a pollutant discharge registration form. Entities subject to pollutant discharge licensing management shall not emit industrial noise without a pollutant discharge license and shall prevent and control noise pollution according to the requirements of the pollutant discharge permit license.

According to the Law on Prevention and Control of Environment Pollution Caused by Solid Wastes of the PRC (《中華人民共和國固體廢物污染環境防治法》) amended by the SCNPC on April 29, 2020 and implemented on September 1, 2020, the prevention and control of environmental pollution by solid wastes shall be in adherence to the principle of liability for pollution. Any entity or individual that produces, collects, stores, transports, utilizes, or treats solid wastes shall take measures to prevent or reduce environmental pollution caused by solid wastes, and be liable for resultant environmental pollution in accordance with the law.

Pursuant to the relevant provisions of the Administrative Measures of Pollutant Discharge (《排污許可管理條例》) issued by the State Council on January 24, 2021 and implemented on March 1, 2021, enterprises and institutions and other producers and operators that are subject to pollutant discharge license management in accordance with laws and regulations are required to apply for and obtain the pollutant discharge license as required by such provisions, and shall not discharge pollutants without a pollutant discharge license.

LAWS AND REGULATIONS ON FIRE PROTECTION

The Fire Prevention Law of the PRC

The Fire Prevention Law of the PRC（《中華人民共和國消防法》）, adopted on April 29, 1998 and last amended on April 29, 2021, specifies fire prevention safety responsibilities that should be abided by enterprises, including without limitations the following matters: (i) implement a fire prevention safety responsibility system; (ii) formulate fire safety regulations, operating rules and fire fighting and emergency evacuation plans; (iii) deploy fire fighting facilities and equipment; (iv) set up fire safety signs and organize inspection and maintenance at regular intervals to ensure their proper functioning; (v) conduct a comprehensive inspection of fire fighting facilities at least once a year to ensure their proper functioning the inspection records shall be complete and accurate and shall be archived for supervision purpose; (vi) guarantee that evacuation passages, safety exits and fire truck passages are kept clear and fire and smoke compartmentation as well as fire separation distance meet the relevant fire protection technical standards; (vii) organize fire protection inspections in order to eliminate any potential fire risks in time; and (viii) organize target specific fire drills.

Furthermore, according to the Interim Administration of Fire Protection Design Review and Acceptance of Construction Projects (《建設工程消防設計審查驗收管理暫行規定》, the "**Administration of Fire Protection Design Review and Acceptance**") promulgated by the Ministry of Housing and Urban-Rural Development on April 1, 2020 and effective on June 1, 2020, for the workshop of a labor-intensive enterprise with more than 2,500 square meters, a building whose gross floor area exceeds 40,000 square meters or whose construction height exceeds 50 meters, among other conditions, the construction entity shall apply for fire protection design approval. Upon completion of a project which requires application for fire protection design approval, the construction entity shall apply to the housing and urban-rural development authority for fire protection safety acceptance inspection. For construction projects other than those required to apply for approvals of fire protection design review and as-built fire protection inspection under the Administration of Fire Protection Design Review and Acceptance, the construction enterprise shall file the fire protection design with the fire safety government authorities while within applying for the construction permit for construction projects (建築工程施工許可證, the "**Construction Permit**"), and shall, within 5 business days of passing the as-built inspection of the construction project, file with the competent department of fire prevention design review inspection. According to the Fire Prevention Law of the PRC, the relevant authorities may order suspension of construction or use or suspension of operation or business and impose a fine ranging from RMB30,000 to RMB300,000 (i) where such construction project failed to undergo legally required fire protection design examination or failed to pass such examination, and the construction has been commenced illegally; (ii) where such construction project failed to undergo legally required fire control acceptance inspection or failed to pass fire control acceptance inspection, and the project was put into use illegally.

LAWS AND REGULATIONS ON DEVELOPMENT OF REAL ESTATE PROJECTS

Planning of Real Estate Projects

Pursuant to the Regulation on Planning Administration regarding Granting and Transferring Use Right of Urban State-owned Lands（《城市國有土地使用權出讓轉讓規劃管理辦法》）, promulgated by the

Ministry of Construction on December 4, 1992 and revised on January 26, 2011, an enterprise which has been granted land use rights and obtained the land use right granting contract shall apply for a construction land planning permit（建設用地規劃許可證） with competent planning authorities, and afterwards, such an enterprise can further register its land use rights with the land administration authorities.

Pursuant to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) enacted by the SCNPC on October 28, 2007 and latest amended and implemented on April 23, 2019, any construction entity or individual contemplating to build any structure, fixture, road, pipeline or other construction projects shall apply to competent urban and rural planning departments for a construction project planning permit （建設工程規劃許可證）. Failing to obtain the construction project planning permit or construct in compliance with the requirements set forth in such permit will result in such administrative penalties as suspension of construction, rectification within a stipulated time period, and fines of 5% to 10% of the contract price of the construction project.

Land Grants

Pursuant to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) promulgated on June 25, 1986 and most recently amended on August 26, 2019 and implemented on January 1, 2020, the Regulations on the Implementation of the Land Administration Law of the PRC (《中華人民共和國土地管理法實施條例》) promulgated on January 4, 1991 and implemented on February 1, 1991, and most recently amended on July 2, 2021 and implemented on September 1, 2021, and the Provisional Regulations on the Grant and Transfer of Right to Use State-owned Land in Urban Areas of the PRC (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》) , promulgated and implemented by the State Council on May 19, 1990, and amended and implemented on November 29, 2020, a system of assignment and transfer of the right to use State-owned land is adopted. Under this system, the land users shall enter into an assignment contract with the land administration authorities at the municipal or county level. The former shall pay fees for the transfer of land use rights as prescribed in the assignment contract and register with the land administration authorities and apply for a land use rights certificate which is the evidence of acquiring land use rights of a piece of State-owned land. Entities or individuals that illegally occupy land without approval shall be ordered by the competent department of natural resources of the PRC above the county level to return the land illegally occupied. In the case of violating the general land utilization plan by turning agricultural land into construction land without authorization, shall be ordered to demolish the newly-constructed buildings and other facilities on the land illegally occupied and restore the land to its original condition within a prescribed period and where the use of illegally occupied land has not violated the general land utilization plan, confiscation of the newly-constructed buildings and a fine may be concurrently imposed. The amount of fine shall be not less than RMB100 but not more than RMB1,000 per square meter of the illegally occupied land.

Construction Permits

Pursuant to the Construction Law of the PRC（《中華人民共和國建築法》） promulgated by the SCNPC on November 1, 1997, implemented on March 1, 1998 and revised on April 22, 2011 and April 23, 2019, and the Administrative Measures on the Construction Permits for Construction Projects（《建築工程施工許可管理辦法》） promulgated by the Ministry of Housing and Urban-Rural Development on June 25, 2014 and implemented on October 25, 2014 and revised on September 28, 2018 and March 30, 2021, after obtaining a construction project planning permits （建設工程規劃許可證）, the construction entity shall apply for the Construction Permit before commencing the construction, provided that the investment amount of the construction project is below RMB300,000 or the construction area of the construction project is below 300 square meters. With respect to each construction project that commenced without a Construction Permit, the entity may be ordered to suspend construction, take remedial measures within a prescribed period, and may be fined 1% to 2% of the contract price of the construction project.

Construction Completion Filing

In accordance with the Administrative Measures for the Filing of As-built Inspection of Housing, Building and Municipal Infrastructure Projects（《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》） promulgated by the Ministry of Housing and Urban-rural Development on April 4, 2000 and amended on October 19, 2009, and the Rules for the Confirmation of the Completion of Building Construction and Municipal Infrastructure Projects（《房屋建築和市政基礎設施工程竣工驗收規定》） promulgated by the Ministry of Housing and Urban-rural Development on December 2, 2013, after completion of construction of a project, the construction entity shall undergo inspection and receive approvals from relevant local authorities including planning bureaus, fire prevention authorities and environmental protection authorities. Pursuant to the Regulation on Quality Management of Construction Projects (《建設工程質量管理條例》) promulgated by the State Council on January 30, 2000 and most recently amended on April 23, 2019, if the construction entity fails to organize the as-built acceptance before delivery to use, it may be ordered to take remedial measures and be fined 2% to 4% of the contract price of the project.

LAWS AND REGULATIONS RELATED TO INTELLECTUAL PROPERTY

Trademark

The Trademark Law of the PRC (《中華人民共和國商標法》, the "**Trademark Law**") became effective on March 1, 1983 and was last amended on April 23, 2019, and the Implementation Rules of the Trademark Law (《中華人民共和國商標法實施條例》) became effective on September 15, 2002 and was last amended on April 29, 2014. The Trademark Law and its implementation rules provide the basic legal framework for the regulation of trademarks in the PRC, covering registered trademarks, including commodity trademarks, service trademarks, collective marks and certificate marks. Where registration is sought for a trademark that is identical or similar to another trademark that has already been registered or given preliminary examination and approved for use on the same or similar commodities or services, the application for registration of such trademark may be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked.

Patent

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated by the SCNPC on March 12, 1984, last amended on October 17, 2020 and effective from June 1, 2021 and the Implementation Rules of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) promulgated by the State Council on June 15, 2001, and last amended on January 9, 2010, there are three types of patents, namely, invention, utility model and design. A patent is valid for a twenty-year term for an invention, a ten-year term for a utility model, or a fifteen-year term for a design, starting from the application date. The PRC patent system adopts first to file principle, which means that where more than 1 person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third party must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

Copyright

Copyright (including software copyright) is mainly protected by the Copyright Law of the PRC (《中華人民共和國著作權法》) as promulgated on September 7, 1990 and last amended on November 11, 2020 by the SCNPC and the Implementing Rules of the Copyright Law of the PRC (《中華人民共和國著作權法實施條例》) as promulgated on August 2, 2002 and last amended on January 30, 2013 by the State Council. Such law and rules prescribe that Chinese citizens, legal persons or other organizations enjoy copyright protection over their works, whether published or not, in the domain of literature, art and science.

Domain Name

Internet domain name registration and related matters are regulated by the Administrative Measures on Internet Domain Names (《互聯網域名管理辦法》) promulgated by the Ministry of Industry and Information Technology on August 24, 2017 and taking into effect on November 1, 2017, and the Implementation Rules for the Registration of National Top-level Domain Names (《國家頂級域名註冊實施細則》) promulgated by China Internet Network Information Center and taking into effect on June 18, 2019. Domain name owners are required to register their domain names and the Ministry of Industry and Information Technology is in charge of the administration of PRC internet domain names. The domain name services follow a "first come, first file" principle. The applicants will become the holders of such domain names upon the completion of the registration procedure.

LAWS AND REGULATIONS RELATED TO LABOR PROTECTION, SOCIAL INSURANCE AND HOUSING PROVIDENT FUNDS

Labor Law and Labor Contracts

According to the Labor Law of the PRC (《中華人民共和國勞動法》) promulgated on July 5, 1994 and amended on August 27, 2009 and December 29, 2018, employers shall establish and improve their system of work place safety and sanitation, strictly abide by state rules and standards on work place safety, and conduct employees training on labor safety and sanitation in the PRC. Enterprises and institutions shall provide employees with a safe work place and sanitation conditions which are in compliance with relevant laws and regulations of labor protection.

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) promulgated on June 29, 2007 and amended on December 28, 2012, and the Implementation Rules of the Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) promulgated on September 18, 2008 set out specific provisions in relation to the execution, the terms and the termination of a labor contract and the rights and obligations of the employees and employers, respectively. Labor contracts must be concluded in writing if labor relationships are to be or have been established between employers and the employees. Enterprises and institutions are forbidden to force employees to work overtime or to do so in a disguised manner and employers must pay employees overtime wages in accordance with national regulations. In addition, wages may not be lower than local standards on minimum wages and must be paid to the employees timely. At the time of hiring, the employers shall truthfully inform the employees the scope of work, working conditions, working place, occupational hazards, work safety, salary and other matters which the employees request to be informed about.

Social Insurance and Housing Fund

Under PRC laws and regulations, including the Social Security Law of the PRC (《中華人民共和國社會保險法》) promulgated by the SCNPC on October 28, 2010 and taking into effect on July 1, 2011, which was amended on December 29, 2018, the Interim Regulations on the Collection and Payment of Social Security Funds (《社會保險費徵繳暫行條例》) promulgated by the State Council and taking into effect on January 22, 1999 and amended on March 24, 2019, and the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》) promulgated by the State Council and taking into effect on April 3, 1999, and amended on March 24, 2002 and March 24, 2019, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance and housing provident funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to pay the deficit amount.

REGULATIONS RELATED TO FOREIGN INVESTMENT IN CHINA

On December 27, 2021, Ministry of Commerce and National Development and Reform Commission promulgated the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Edition) (《外商投資准入特別管理措施（負面清單）（2021年版）》, the "**Negative List (2021 Edition)**"), which became effective on January 1, 2022. Industries not listed in the Negative List (2021 Edition) are generally open to foreign investment unless specifically prohibited or restricted by other PRC laws and regulations. According to the Negative List (2021 Edition), the baijiu industry is not prohibited or restricted.

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》, the "**Foreign Investment Law**") was promulgated by the NPC on March 15, 2019 and became effective on January 1, 2020. According to the Foreign Investment Law, foreign investment and domestic enterprises outside the scope of the negative list would be treated equally. Along with the Foreign Investment Law's coming into effect on January 1, 2020, the Law on Sino-Foreign Equity Joint Ventures of the PRC (《中華人民共和國中外合資經營企業法》), the Law on Wholly Foreign-owned Enterprises of the PRC (《中華人民共和國外資企業法》) and the Law on Sino-Foreign Cooperative Joint Ventures of the PRC (《中華人民共和國中外合作經營企業法》) were repealed simultaneously, and foreign-funded enterprises which were established in accordance with such laws before the implementation of the Foreign Investment Law and the Implementing Regulations may retain their original organization forms and other aspects for 5 years upon the implementation hereof.

On December 26, 2019, the Implementing Regulations of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》, the "**Implementing Regulations**") was promulgated by the State Council and came into effect on January 1, 2020, which further replaced the Implementing Regulations of the Law of the PRC on Sino-foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法實施條例》), the Interim Provisions on the Joint Operation Period of Sino-foreign Equity Joint Ventures (《中外合資

經營企業合營期限暫行規定》), the Rules for the Implementation of the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法實施細則》) and the Rules for the Implementation of the Law of the PRC on Sino-foreign Cooperative Joint Ventures (《中華人民共和國中外合作經營企業法實施細則》). According to the Implementing Regulations, the registration of a foreign-invested enterprise shall be processed pursuant to the law by the market regulation department of the State Council or its authorized local counterparts. A foreign investor or a foreign-invested enterprise shall submit investment information to the competent commerce department via the enterprise registration system and the enterprise credit information publicity system. The Foreign Investment Law and the Implementing Regulations also apply to the investment made by a foreign-invested enterprise in the PRC.

On December 30, 2019, the Ministry of Commerce and the SAMR jointly promulgated the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》, the "**Reporting Measures**"), which came into effect on January 1, 2020 and replaced the Provisional Measures on Record-filing Administration over the Establishment and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) simultaneously. Pursuant to the Reporting Measures, a foreign investor or a foreign-invested enterprise shall report investment information by submitting initial report, changing report, deregistration report, annual report, among others.

LAWS AND REGULATIONS RELATED TO FOREIGN EXCHANGE

Foreign Currency Exchange

The principal regulations governing foreign currency exchange in the PRC is the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》), promulgated on January 29, 1996 and last amended on August 5, 2008. According to the Foreign Exchange Administration Regulations of the PRC currently in effect, payments of current account items, such as profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange (the "**SAFE**"), by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital account items, such as direct investments, repayment of foreign currency-denominated loans, repatriation of investments and investments in securities outside of China.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Administration Method of the Settlement of Foreign Currency Capital by Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》, the "**SAFE Circular 19**") which became effective on June 1, 2015. The SAFE Circular 19 allows all foreign-invested enterprises established in the PRC to settle their foreign exchange capital on a discretionary basis according to the actual needs of their business operation, provides the procedures for foreign invested companies to use RMB converted from foreign currency-denominated capital for equity investments. The SAFE promulgated the Notice of the SAFE on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the "**SAFE Circular 16**"), effective on June 9, 2016, which reiterates some of the rules set forth in the SAFE Circular 19. The SAFE Circular 16 provides that discretionary foreign exchange settlement applies to foreign exchange capital, foreign debt offering proceeds and remitted foreign listing proceeds, and the corresponding RMB capital converted from foreign exchange may be used to extend loans to related parties or repay inter-company loans (including advances by third parties). However, there are substantial uncertainties with respect to the SAFE Circular 16's interpretation and implementation in practice. The SAFE Circular 19 or the SAFE Circular 16 may delay or limit us from using the proceeds of offshore offerings to make additional capital contributions to our PRC subsidiaries and any violations of these circulars could result in severe monetary or other penalties.

According to the Circular of the State Administration of Foreign Exchange on Optimizing Foreign Exchange Management Service in Support of Foreign Business Development (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》) issued by the SAFE on April 10, 2020, the reform of facilitating the payments of incomes under the capital accounts shall be promoted nationwide. Enterprises meeting the prescribed requirements are allowed to use revenue under the capital accounts as capital funds, external debts and overseas listings for domestic payment without providing banks with authenticity certification materials in advance, to the extent that funds are used for true and law-compliant purposes and such enterprises comply with the in-force administrative provisions on the use of revenue under the capital accounts.

Foreign Exchange Registration of Overseas Investment by PRC Resident

In 2014, SAFE issued the SAFE Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》, the "**SAFE Circular 37**"). The SAFE Circular 37 regulates foreign exchange matters in relation to offshore investments and financing or round-trip investments of residents or entities by way of special purpose vehicles in China. Under the SAFE Circular 37, a "special purpose vehicle" refers to an offshore entity established or controlled, directly or indirectly, by PRC resident individuals or entities for the purpose of seeking offshore financing or making offshore investments, using legitimate onshore or offshore assets or interests, while "round trip investment" refers to direct investments in China by PRC resident individuals or entities through special purpose vehicles, namely, establishing foreign investment enterprises to obtain ownership, control rights and management rights. The SAFE Circular 37 provides that, before making a contribution into a special purpose vehicle, PRC residents or entities are required to complete foreign exchange registration with SAFE or its local branch, and in the event the change of basic information such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the PRC residents or entities shall complete the change of foreign exchange registration formality for offshore investments.

The Circular on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》, the "**SAFE Circular 13**"), which became effective on June 1, 2015 and was amended on December 30, 2019, cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment and simplifies the procedure of foreign exchange-related registration. Pursuant to the SAFE Circular 13, investors should register with banks for direct domestic investment and direct overseas investment.

LAWS AND REGULATIONS RELATED TO TAXATION

PRC Enterprise Income Tax Law

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), as promulgated on March 16, 2007 and last amended on December 29, 2018, and the Implementing Rules of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), as promulgated on December 6, 2007 and amended on April 23, 2019, the income tax for both domestic and foreign-owned enterprises is at the same rate of 25%. An income tax rate of 10% will normally be applicable to dividends payable to investors that are "non-resident enterprises", and gains derived by such investors, which (i) do not have an establishment or place of business in the PRC or (ii) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and other jurisdictions.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) promulgated by the STA on April 22, 2009, taking into effect on January 1, 2008 and most recently amended on December 29, 2017, sets out the standards and procedures for determining whether the "de facto management body" of an enterprise registered outside of mainland China and controlled by mainland Chinese enterprises or mainland Chinese enterprise groups is located within mainland China.

On July 27, 2011, STA issued a trial version of the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (《境外註冊中資控股居民企業所得稅管理辦法 (試行)》), which came into effect on September 1, 2011 and was last amended on June 15, 2018, to clarify certain issues in the areas of resident status determination, post-determination administration and competent tax authorities' procedures.

The PRC and the government of the Hong Kong SAR signed the Arrangement between the Mainland of the PRC and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) on August 21, 2006 (the "**Arrangement**"). According to the Arrangement, the withholding tax rate 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests of the PRC company. Furthermore, pursuant to the Circular of the State Taxation Administration on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated by the STA and took effect from February 20, 2009, all of the following requirements should be satisfied for an entity to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement: (i) the tax resident of the other party who obtains dividends shall be limited to company in accordance with the tax agreement; (ii) the total amount of the owner's equities and the voting shares directly owned by such a tax fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a tax resident, at any time during the twelve months prior to the receipt of the dividends, reach the percentage specified in the tax agreement.

In addition, according to the Administrative Measures for Tax Agreements Treatment for Non-resident Tax-payers (《非居民納稅人享受協定待遇管理辦法》), which was issued on October 14, 2019 by the STA and became effect on January 1, 2020, qualified non-resident tax-payers can enjoy tax treaty benefits by themselves when filing tax declarations, or make withholding declarations by withholding agents, and be subjected to the subsequent management of the taxation authority.

Value-Added Tax

According to the Interim Value-Added Tax Regulations of the PRC (《中華人民共和國增值稅暫行條例》) announced by the State Council on December 13, 1993 and last amended on November 19, 2017, entities and individuals selling goods, providing labor services of processing, repairing or maintenance, selling services, intangible assets, real property in China, and importing goods to China, shall be identified as taxpayers of value-added tax (the "**VAT**"). Unless otherwise provided by laws, the VAT rate is 17% for taxpayers selling goods, labor services, or tangible movable property leasing services or importing goods; 11% for taxpayers selling transportation, postal, basic telecommunication, construction, or immovable property leasing services, immovable property, transferring the rights to use land, or selling or importing specific goods; 6% for taxpayers selling services or intangible assets; 0% for domestic entities and individuals selling services or intangible assets within the scope prescribed by the State Council across national borders; 0% for exported goods, except as otherwise specified by the State Council.

According to the Circular of on Adjusting Value-added Tax Rates (《財政部、稅務總局關於調整增值稅稅率的通知》) announced by the Ministry of Finance and the STA on April 4, 2018, effective from May 1, 2018, where a taxpayer engages in a VAT taxable sales activity or imports goods, the previous applicable 17% and 11% tax rates are adjusted to be 16% and 10% respectively.

According to the Announcement of the Ministry of Finance, the STA and the General Administration of Customs on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) promulgated on March 20, 2019, with respect to VAT taxable sales or imported goods of a VAT general taxpayer, the originally applicable VAT rate of 16% shall be adjusted to 13%; the originally applicable VAT rate of 10% shall be adjusted to 9%.

Consumption Tax

Pursuant to Interim Regulations on Consumption Tax of the PRC (《中華人民共和國消費稅暫行條例》, the "**Interim Regulations on Consumption Tax**") enacted by the State Council on December 13, 1993, and amended on November 10, 2008 and implemented on January 1, 2009, entities and individuals engaged in producing, commissioned processing or importing the consumer goods as specified in these Regulations, within the territory of the PRC, and all other entities and individuals determined by the State Council to sell such consumer goods specified in the Interim Regulations on Consumption Tax shall be the taxpayers of consumption tax and shall pay such consumption tax. The applicable consumption tax rate of baijiu is 20% plus the fixed consumption tax (RMB 0.5/500g (or 500ml)). The STA issued the Notice on Strengthening the Administration of the Collection of Alcohol Consumption Tax (《國家稅務總局關於加強白酒消費稅徵收

管理的通知》）and Administrative Measures for the Approval of the Minimum Taxable Price of Alcohol Consumption Tax (for Trial Implementation) (《白酒消費稅最低計稅價格核定管理辦法（試行）》) on July 17, 2009. Accordingly, if the taxable price is lower than 70% of the retail price (excluding VAT), the tax authority shall determine the lowest taxable price for consumption tax within the range between 50% and 70% of the retail price, taking into account factors including production scale, liquor brand, and profitability.

REGULATIONS ON THIRD-PARTY SETTLEMENT ARRANGEMENT AND USE OF PERSONAL BANK ACCOUNTS

According to the Company Law of the PRC（《中華人民共和國公司法》）, which was promulgated by the SCNPC on December 29, 1993 and most recently amended on October 26, 2018, company assets shall not be deposited in accounts opened and maintained in the name of an individual. Further, according to the Measures for Payment and Settlement（《支付結算辦法》） issued by the PBOC on September 19, 1997, it is strictly forbidden to deposit the funds of an entity into the account of an individual card.

According to the Measures for the Administration of RMB Bank Settlement Accounts (《人民幣銀行結算賬戶管理辦法》), which was promulgated by the PBOC on April 10, 2003 and became effective on September 1, 2003, if an entity settles its funds through a personal bank account, a warning and fine ranging between RMB5,000 to RMB30,000 may be imposed upon such entity.

According to the Criminal Law of the PRC (《中華人民共和國刑法》, the "**Criminal Law**") effective on January 1, 1980 and most recently amended on December 26, 2020, the crime of money laundering is committed if the any person or entity commits certain acts as referred to under Article 191 of the Criminal Law for the purpose of covering up or concealing the source and nature of the proceeds and/or gains obtained from drug-related crimes, crimes committed by criminal organizations, crimes of terrorism, smuggling, bribery and corruption, crimes undermining the financial order of society and financial fraud.

REGULATIONS RELATED TO INFORMATION SECURITY AND PRIVACY PROTECTION

Pursuant to the Civil Code of the PRC （《中華人民共和國民法典》）, the personal information of a natural person shall be protected. Any organization or individual shall legally obtain the personal information of others when necessary and ensure the safety of such personal information, and shall not illegally collect, use, process or transmit the personal information of others, or illegally buy or sell, provide or make public the personal information of others.

According to the Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》), which was promulgated by SCNPC on November 7, 2016 and became effective on June 1, 2017, internet service providers are required to take measures to ensure internet security by complying with security protection obligations, formulating cybersecurity emergency response plans, and providing technical assistance and support for public security and national security authorities. In addition, any collection, process and use of a user's personal information must be subject to the consent of the user, be legal, rational and necessary, and be limited to specified purposes, methods and scopes. An internet service provider must also keep such information strictly confidential, and is further prohibited from divulging, tampering with or destroying any such information, or selling or providing such information to other parties illegally.

On December 28, 2021, the Cyberspace Administration of China and other twelve PRC regulatory authorities jointly revised and promulgated the Measures for Cybersecurity Review (《網絡安全審查辦法》) (the "**Cybersecurity Review Measures**"), which came into effect on February 15, 2022 and replaced the Measures for Cybersecurity Review promulgated on April 13, 2020. The Cybersecurity Review Measures provides that critical information infrastructure operators purchasing network products and services and platform operators carrying out data processing activities, which affect or may affect national security, shall be subject to cybersecurity review, and network platform operators with personal information data of more than one million users are obliged to apply for a cybersecurity review before listing abroad (國外上市). In addition, relevant government authorities in the PRC may initiate cybersecurity review if they determine an internet platform operator's network products or services or data processing activities affect or may affect national security.

On November 14, 2021, the CAC published the Administration Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the "**Draft Regulations on Cyber Data Security**"). This regulation provides for the circumstances under which data processors shall apply for cybersecurity review, including, among others, when (i) the data processors who process personal information of more than one million individuals apply for listing abroad (國外上市); and (ii) the data processors' listing in Hong Kong affects or may affect national security. The Draft Regulations on Cyber Data Security also provide specific requirements for data processors in conducting data processing activities within the territory of the PRC. Neither the Draft Regulations on Cyber Data Security nor the Cybersecurity Review Measures provides further explanation or interpretation for "listing abroad (國外上市)" or the scope of activities of data processing that "affects or may affect national security." As advised by our PRC Legal Advisor, a listing in Hong Kong is not treated as a listing abroad within the meaning of the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security.

REGULATIONS ON M&A AND OVERSEAS LISTINGS

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, the SASAC, the STA, the SAIC, the CSRC and the SAFE, issued the Rules on Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**"), which took effect on September 8, 2006 and was amended on June 22, 2009. Foreign investors shall comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the assets; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets and operate the assets. The M&A Rules purport, among other things, to require offshore special purpose vehicles formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of CSRC prior to publicly listing their securities on an overseas stock exchange.

On July 6, 2021, Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》) was jointly issued by the General Office of the Communist Party of China Central Committee and the General Office of the State Council, which stepped up scrutiny of overseas listings by companies and calls for strengthening cooperation in cross-border regulation, improving relevant laws and regulations on cyber security, cross-border data transmission and confidential information management, including the confidentiality requirement and file management related to the issuance and listing of securities overseas, enforcing the primary responsibility of the enterprises for information security of China-based overseas-listed companies and promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies.

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Enterprises (《境內企業境外發行證券和上市管理試行辦法》) (the "**Trial Administrative Measures**") and five supporting guidelines, which has become effective on March 31, 2023. Pursuant to the Trial Administrative Measures, PRC domestic enterprises that directly or indirectly offer or list their securities in an overseas market, which include (i) any PRC company limited by shares, and (ii) any offshore company that conducts its business operations primarily in China and contemplates to offer or list its securities in an overseas market based on its onshore equities, assets or similar interests, are required to file with the CSRC within three business days after its application for overseas listing is submitted. Failure to complete the filing under the Trial Administrative Measures may subject a PRC domestic enterprise to rectification ordered by the CSRC, warning, and fine of RMB1 million to RMB10 million.

On the same date, the CSRC promulgated the Notice on the Arrangement for the Filing-based Administration of Overseas Securities Offering and Listing by Domestic Enterprises (《關於境內企業境外發行上市備案管理安排的通知》) (the "**Arrangement for Filing-based Administration**"). According to the Arrangement for Filing-based Administration, PRC domestic enterprises shall not be required to complete the filing procedures if all of the following conditions are met: (i) the application for indirect overseas offering or listing shall have been approved by the overseas regulatory authorities or the overseas stock exchanges (for example, a contemplated offering and/or listing in Hong Kong has passed the hearing) prior to the effective date of the Trial Administrative Measures; (ii) it is not required to re-perform the overseas regulatory procedures for overseas securities offering and listing; (iii) such overseas securities offering or listing shall be completed before September 30, 2023. From March 31, 2023, domestic enterprises that have submitted valid applications for overseas offerings and listings but have not obtained the approval from overseas regulatory authorities or overseas stock exchanges shall complete the filing procedures with the CSRC prior to their overseas offerings and listings.

OVERVIEW

Mr. Wu, the founder, chairman of the Board and a Controlling Shareholder of our Group, is a serial entrepreneur with a proven record of successful entrepreneurship who has over 20 years of experience covering the whole baijiu industry chain from production to sales and distribution, including the founding of *Jinliufu* more than 20 years ago, which is a renowned baijiu brand in China. For the biography of Mr. Wu, see "Director and Senior Management." In 2003, Mr. Wu led the acquisition of and started to manage *Xiang Jiao* and *Kai Kou Xiao* related businesses through Hunan Xiangjiao. In 2009, Mr. Wu acquired and commenced to manage our major brands, *Zhen Jiu* and *Li Du*, through Zhenjiu Brewing and Jiangxi Lidu, respectively. After years of development and under the leadership of Mr. Wu, our Group has developed into a leading baijiu company in China devoted to offering premium baijiu products featuring sauce aroma profile.

KEY MILESTONES

The following sets forth certain key business development milestones of our Group:

Years	Milestones
2003	Mr. Wu led the acquisition of and started to manage *Xiang Jiao* and *Kai Kou Xiao* related businesses through Hunan Xiangjiao.
2006	Lidu Yuan Dynasty baijiu distillery site was accredited by the State Council as a National Major Historical and Cultural Site Protected (全國重點文物保護單位).
2009	*Zhen Jiu* and *Li Du* related businesses were acquired by Mr. Wu.
2011	One of the trademarks under our flagship brand, *Zhen Jiu*, was awarded with the designation of China Well-known Trademark (中國馳名商標).
2011	Hunan Xiangjiao was awarded as one of the key national leading enterprises for agricultural industrialization.
2014	*Zhen Jiu* was awarded as one of the five most outstanding brands in the Guizhou liquor industry.
2015	Our product Li Du Sorghum 1955 (李渡高粱1955) won the Grand Gold Medal in the Spirits Selection organized by Concours Mondial de Bruxelles.
2018	*Li Du*'s distillery was awarded the national AAAA-level tourist attraction as well as a national industrial heritage.
2018	Our product Red Diamond Xiang Jiao (湘窖· 紅鑽) won the Grand Gold Medal in the Spirits Selection organized by Concours Mondial de Bruxelles.
2018	*Xiang Jiao*'s distilleries was awarded with the designation of the national AAAA-level tourist attraction.
2021	Our product Zhen 30 (珍三十) won the Grand Gold Medal in the Spirits Selection organized by Concours Mondial de Bruxelles. Our products Zhen 30 (珍三十) and Zhen 15 (珍十五) product series won the Grand Gold Medal from 2021 San Francisco World Spirits Competition in the U.S..
2022	The annual production capacity of base liquor of *Zhen Jiu* has expanded to 35,000 tons.

OUR CORPORATE DEVELOPMENTS

Our Major Operating Subsidiaries

Since our inception, our business operations have been carried out by our operating subsidiaries established in the PRC. Set out below are the major corporate developments of our subsidiaries which made significant contribution to the operation of our Group during the Track Record Period:

Zhenjiu Brewing

Zhenjiu Brewing was established in the PRC with limited liability on September 28, 2009, with an initial registered capital of RMB20 million which had been fully paid up on September 22, 2009, by its then shareholder, Vats Liquor, a company controlled by Mr. Wu. In 2009, *Zhen Jiu* related businesses was acquired by Mr. Wu and injected to Zhenjiu Brewing through his controlled entity from Guizhou Zhenjiu Distillery (貴州珍酒廠), the state-owned operating entity of *Zhen Jiu*. Zhenjiu Brewing primarily engages in the production of *Zhen Jiu* and it is also the current onshore holding company of our Group.

After a series of share transfers and increases of registered share capital, as of January 1, 2020, Zhenjiu Brewing was wholly owned by Jindong Group, a company controlled by Mr. Wu, with a registered share capital of RMB50 million, which had been fully paid up on March 8, 2013. In July 2021, the registered share capital of Zhenjiu Brewing was increased to RMB300 million by way of capital injection from Jindong Group.

After a series of shares transfers and capital increases as part of the Reorganization, in November 2021, Zhenjiu Brewing was wholly owned by Guizhou Zhenjiu, with a registered capital of RMB309,278,350.52, which was fully paid-up on October 11, 2021. See " — Reorganization" in this section for further details.

Pursuant to a shareholder resolution of Zhenjiu Brewing in December 2021, the registered capital of Zhenjiu Brewing was further increased to RMB1,500 million by way of capital injection from Guizhou Zhenjiu, which had been fully paid up on August 5, 2022.

Zhenjiu Sales

Zhenjiu Sales primarily engages in the sales and distribution of *Zhen Jiu*. It was established in the PRC with limited liability on October 15, 2009, with a registered capital of RMB2 million which had been fully paid up on September 22, 2009, by its then shareholder, Vats Liquor, a company controlled by Mr. Wu.

After a series of share transfers, as of January 1, 2020, Zhenjiu Sales was wholly owned by Zhenjiu Brewing. There has been no change of shareholding or share capital of Zhenjiu Sales since then and up to the Latest Practicable Date.

Hunan Xiangjiao

Hunan Xiangjiao was established in the PRC with limited liability on November 7, 2003, with an initial registered capital of RMB20 million which had been fully paid up on October 22, 2003. At the time of its establishment, Hunan Xiangjiao was held by Jindong Group as to 60% and Shaoyang Distillery (邵陽市酒廠), a then wholly owned subsidiary of Jindong Group, as to 40%. After its establishment, Mr. Wu led the acquisition of *Xiang Jiao* and *Kai Kou Xiao* related businesses from Shaoyang Distillery and then injected them to Hunan Xiangjiao. He started to manage relevant businesses through Hunan Xiangjiao after the injection, which primarily engages in the production of *Xiang Jiao* and *Kai Kou Xiao*. Throughout the Track Record Period, common control had been exercised by Mr. Wu over Hunan Xiangjiao for the purpose of applying merger accounting.

After the completion of a series of share transfers and increases in registered share capital, including the investments of RMB1.01 million (representing 1% of the share capital of Hunan Xiangjiao) in 2014 from ChinaNet, a company controlled by Mr. Ng, and his agreement of disposal of the relevant shares to Jindong Group in 2019, Hunan Xiangjiao was wholly owned by Jindong Group. After the completion of the shares transfer as set out in " — Reorganization — 2. Onshore Reorganization and Investments — Transfer of Hunan Xiangjiao and Jiangxi Lidu to Zhenjiu Brewing", Hunan Xiangjiao has been wholly owned by Zhenjiu Brewing up to the Latest Practicable Date.

Hunan Xiangjiao Sales

Hunan Xiangjiao Sales primarily engages in the sales of *Xiang Jiao* and *Kai Kou Xiao*. It was established in the PRC with limited liability on November 28, 2001, with an initial registered capital of RMB520,000 which had been fully paid up. On the date of its establishment, Hunan Xiangjiao Sales was held by Shaoyang Distillery (邵陽市酒廠) as to approximately 88% with the remaining stake held by its subsidiaries. Shaoyang Distillery and its subsidiaries were then Independent Third Parties and were subsequently acquired by Jindong Group in 2003. Throughout the Track Record Period, common control had been exercised by Mr. Wu over Hunan Xiangjiao Sales for the purpose of applying merger accounting.

After a series of share transfers, as of January 1, 2020, Hunan Xiangjiao Sales was wholly owned by Hunan Xiangjiao. After a series of capital injections from Hunan Xiangjiao, as of the Latest Practicable Date, the registered share capital of Hunan Xiangjiao Sales is RMB5 million, which had been fully paid up on October 15, 2021.

Jiangxi Lidu

Jiangxi Lidu was established with limited liability on April 8, 2002, with an initial registered capital of HK$15 million which had been fully paid up on March 17, 2004, by its then shareholder, Heng Yuan Tuo Zhan Tou Zi Co., Ltd. (恒源拓展投資有限公司), an Independent Third Party which was then controlling *Li Du* related businesses. In 2009, Mr. Wu acquired the entire shares of Jiangxi Lidu from Heng Yuan Tuo Zhan Tou Zi Co., Ltd through his controlled entity. Jiangxi Lidu primarily engages in the production of *Li Du*.

After a series of share transfers and change of registered share capital, as of January 1, 2020, Jiangxi Lidu was indirectly wholly owned by Jindong Group, with a registered share capital of RMB12.24 million which had been fully paid up on May 31, 2012.

After the completion of the shares transfer as set out in " — Reorganization — 2. Onshore Reorganization and Investments — Transfer of Hunan Xiangjiao and Jiangxi Lidu to Zhenjiu Brewing", Jiangxi Lidu has been wholly owned by Zhenjiu Brewing up to the Latest Practicable Date.

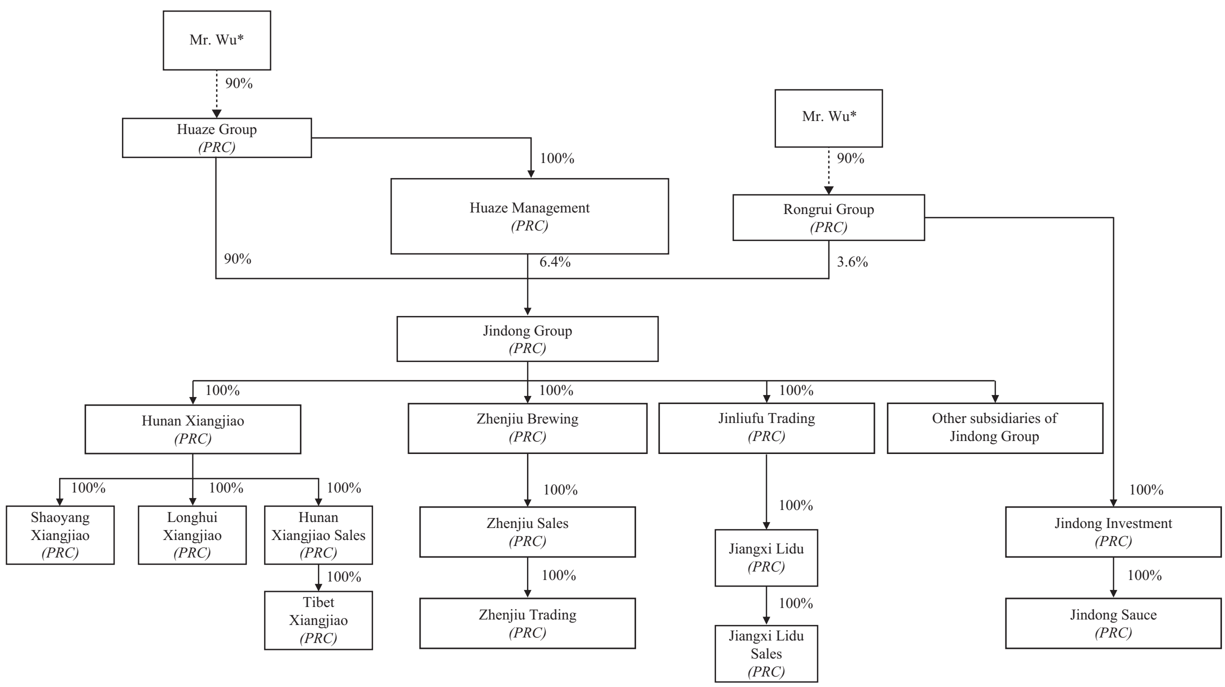
Jiangxi Lidu Sales

Jiangxi Lidu Sales primarily engages in the sales of *Li Du*. Jiangxi Lidu Sales was established with limited liability in the PRC by Jiangxi Lidu on June 16, 2015, with a registered capital of RMB3 million which had been fully paid up on April 1, 2017. There has been no change of direct shareholding or share capital of Jiangxi Lidu Sales since then and up to the Latest Practicable Date.

REORGANIZATION

In preparation for the Listing, we underwent the Reorganization pursuant to which our Company became the holding company and listing vehicle of our Group.

The following chart sets forth our shareholding structure immediately before the Reorganization:



Note:

* Huaze Group and Rongrui Group are held by Mr. Wu as to 90% and Mr. Yan Tao as to 10%, respectively.

1. Offshore Reorganization and Change of Share Capital

Incorporation of our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on September 24, 2021. On incorporation, the authorized share capital of our Company was US$50,000 divided into 50,000 ordinary shares of US$1 each, and one fully-paid Share was allotted and issued to an Independent Third Party and then transferred to Zhenjiu Holding, a company wholly owned by Mr. Wu, at par.

Acquisition of Vats Hunan and China Wine

On October 7, 2021, VATS International Investment Limited (華澤國際投資有限公司), a company wholly owned by Mr. Wu, transferred its entire equity interests in Vats Hunan to our Company at a consideration of US$1. Since October 7, 2021, Vats Hunan has been wholly owned by our Company.

China Wine was incorporated in Hong Kong with limited liability on March 9, 2009. At the time of its incorporation, it was wholly owned by Mr. Wu with an authorized share capital of HK$50,000 divided into 50,000 shares of HK$1 each. There is no change of share capital since its incorporation. Since July 22, 2013, China Wine has been wholly owned by Vats Hunan.

2021 Share Subdivision

On November 25, 2021, pursuant to a shareholders' resolution, each of the shares with a par value of US$1 was sub-divided into 10,000 Shares with a par value of US$0.0001 each and the authorized share capital of our Company was US$50,000 divided into 500,000,000 Shares of US$0.0001 each (the "**2021 Share Subdivision**").

2. Onshore Reorganization and Investments

Transfer of Jindong Sauce to Zhenjiu Brewing

Pursuant to an agreement entered into between Jindong Investment and Zhenjiu Brewing on May 20, 2021, Jindong Investment, a wholly owned subsidiary of Rongrui Group, transferred its entire equity interests in Jindong Sauce, a company primarily engaged in the manufacture of sauce aroma baijiu, to Zhenjiu Brewing at a consideration of RMB5.3 million which was fully paid up, based on then net assets of Jindong Sauce. Upon completion of the share transfer, Jindong Sauce became wholly owned by Zhenjiu Brewing.

Capital Injection to Zhenjiu Brewing by ChinaNet

Pursuant to an agreement entered into among Jindong Group, ChinaNet and Zhenjiu Brewing on September 13, 2021, ChinaNet subscribed for 3% of the equity interest of Zhenjiu Brewing by a capital injection of RMB11,752,577, which was based on arm's length negotiations between our Company and Mr. Ng with reference to the valuation of the total equity of Zhenjiu Brewing, having considered (i) the long-term business relationship that Mr. Ng had with Mr. Wu, and (ii) earlier mutual understanding between Mr. Wu and Mr. Ng regarding Mr. Ng's potential investment in the liquor business controlled by Mr. Wu. The consideration of the capital injection was fully settled on October 11, 2021. Upon completion of the capital injection, Zhenjiu Brewing's registered share capital increased from RMB300 million to RMB309,278,351, and Zhenjiu Brewing was owned by Jindong Group as to 97% and ChinaNet as to 3%.

Transfer of Hunan Xiangjiao and Jiangxi Lidu to Zhenjiu Brewing

On September 10, 2021, pursuant to an agreement entered into by Zhenjiu Brewing and Jindong Group, Jindong Group transferred its entire equity interests in Hunan Xiangjiao to Zhenjiu Brewing at a consideration of RMB110 million, with reference to the valuation of the total equity of Hunan Xiangjiao as appraised by an independent valuer. Upon completion of the share transfer, Hunan Xiangjiao was wholly owned by Zhenjiu Brewing.

On the same date, pursuant to an agreement entered into by Jinliufu Trading and Zhenjiu Brewing, Jinliufu Trading transferred all of its equity interest in Jiangxi Lidu to Zhenjiu Brewing at a consideration of RMB20 million, with reference to the valuation of the total equity of Jiangxi Lidu as appraised by an independent valuer. Upon completion of the share transfer, Jiangxi Lidu is wholly owned by Zhenjiu Brewing.

Transfer of Zhenjiu Brewing to Guizhou Zhenjiu

On October 18, 2021, Guizhou Zhenjiu was established in the PRC by China Wine with limited liability and a registered capital of RMB320 million. Pursuant to an agreement entered into by Jindong Group, ChinaNet and Guizhou Zhenjiu on October 23, 2021, Jindong Group and ChinaNet transferred their entire equity interests in Zhenjiu Brewing to Guizhou Zhenjiu at a consideration of RMB380 million and RMB11,752,577, respectively, with reference to the valuation of the total equity of Zhenjiu Brewing as appraised by an independent valuer. Upon completion of the share transfer in November 2021, Zhenjiu Brewing was wholly owned by Guizhou Zhenjiu.

Our PRC Legal Advisor has confirmed that all the equity transfers and increases in the registered capital of our PRC subsidiaries as described above have been properly and legally completed, and our Group has obtained all necessary regulatory approvals in respect of such transfers and capital increases that our Group had to obtain from PRC regulatory authorities.

PRE-IPO INVESTMENTS

Investment by ChinaNet

As part of the Reorganization, pursuant to an agreement entered into among Jindong Group, ChinaNet and Zhenjiu Brewing on September 13, 2021, ChinaNet subscribed for 3% of the equity interest of Zhenjiu Brewing by a capital injection of RMB11,752,577. For details, see " — Reorganization — 2. Onshore Reorganization and Investments — Capital Injection to Zhenjiu Brewing by ChinaNet" in this section.

On November 4, 2021, our Company allotted and issued 96 and 3 ordinary shares to Zhenjiu Holding and ChinaNet, respectively, at par, after which our Company was owned by Zhenjiu Holding as to 97% and ChinaNet as to 3%. Upon completion of the 2021 Share Subdivision, 970,000 and 30,000 ordinary shares of our Company were held by Zhenjiu Holding and ChinaNet, respectively.

First Investment by Zest Holdings

In 2010, an affiliate of Kohlberg Kravis Roberts & Co. L.P. (the manager of the general partner of the indirect shareholder of Zest Holdings, our Pre-IPO Investor) invested in Vats Liquor, a company listed on the ChiNext market of the Shenzhen Stock Exchange (stock code: 300755) and controlled by Mr. Wu. Taking a favorable view to the prospects of baijiu industry in China and our Group, on November 13, 2021, our Company and Zest Holdings (among other parties) entered into the series A preferred shares subscription agreement, pursuant to which our Company allotted and issued 3,402,805 Series A Preferred Shares to Zest Holdings at a consideration of US$300 million, 44,229,280 ordinary shares to Zhenjiu Holding and 1,367,915 ordinary shares to ChinaNet by way of capitalization issue, on November 25, 2021. After the completion of the aforesaid share issuance, our shareholding structure was as follows:

Name of Shareholders	Ordinary Shares	Series A Preferred Shares	Aggregate Number of Shares	Percentage of Shares in the Total Issued Share Capital
Zhenjiu Holding	45,199,280	–	45,199,280	90.4%
Zest Holdings	–	3,402,805	3,402,805	6.8%
ChinaNet	1,397,915	–	1,397,915	2.8%
Total	**46,597,195**	**3,402,805**	**50,000,000**	**100%**

Second Investment by Zest Holdings

Pursuant to the series A preferred shares subscription agreement dated May 20, 2022 entered into by our Company and Zest Holdings (among other parties), our Company allotted and issued 5,612,625 Series A Preferred Shares to Zest Holdings on June 6, 2022, at a consideration of US$500 million. After the completion of the aforesaid share issuance and as of the Latest Practicable Date, our shareholding structure was as follows:

Name of Shareholders	Ordinary Shares	Series A Preferred Shares	Aggregate Number of Shares	Percentage of Shares in the Total Issued Share Capital
Zhenjiu Holding	45,199,280	–	45,199,280	81.28%
Zest Holdings	–	9,015,430	9,015,430	16.21%
ChinaNet	1,397,915	–	1,397,915	2.51%
Total	**46,597,195**	**9,015,430**	**55,612,625**	**100%**

Principal terms of the Pre-IPO Investments

The table below summarizes the principal terms of the Pre-IPO Investments:

Name of Pre-IPO investor:	**ChinaNet**	**Zest Holdings**	
Date of agreement:	September 13, 2021	November 13, 2021	May 20, 2022
Amount of consideration paid:	RMB11,752,577	US$300 million	US$500 million

Post-money valuation:	RMB391,752,567.00	US$4,459,033,312.00	US$4,954,243,780.76
Basis of determination of the consideration:	Arm's length negotiations between our Company and Mr. Ng with reference to the valuation of the total equity of Zhenjiu Brewing, having considered (i) the long-term business relationship that Mr. Ng had with Mr. Wu, and (ii) earlier mutual understanding between Mr. Wu and Mr. Ng regarding Mr. Ng's potential investment in the liquor business controlled by Mr. Wu	Arm's length negotiation between our Company and Zest Holdings, with reference to the operational and financial performance and business scale of the Group	
Consideration payment date:	October 11, 2021	November 26, 2021	June 6, 2022
Cost per Share[(1)] *(approximation)*:	RMB0.17	US$1.76	US$1.78
Discount to mid-point of the Offer Price range[(2)] *(approximation)*:	98.39%[(3)]	N/A	N/A
Lock-up Undertaking	Please refer to the subsection headed "Underwriting — Lock-up Arrangements — Undertaking by our Pre-IPO Investors".		
Use of proceeds:	We utilized the proceeds from the Pre-IPO Investments for our business operations, construction of new baijiu production facilities and as general working capital of our Group. As of the Latest Practicable Date, proceeds raised from the Pre-IPO Investments had been fully utilized.		
Strategic benefits to our Group:	Considering the experience of the Pre-IPO Investors in capital markets, their investments in the consumer industry and their business network, our Directors believe that investments from the Pre-IPO Investors will benefit our Group's business development. The Directors also believe that the Pre-IPO Investors can provide insights and recommendation in formulating our strategy in future business development.		

Notes:

(1) calculated based on the amount of investments made by the relevant Pre-IPO Investors and number of Shares held by them immediately upon the completion of the Share Subdivision.

(2) calculated based on (i) the Offer Price of HK$11.88 per Share, being the mid-point of the indicative Offer Price range, (ii) the Share Subdivision being completed, and (iii) the exchange rate as set out in the section headed "Information about this prospectus and the Global Offering — Exchange Rate Conversion."

(3) The difference in the prices offered to ChinaNet and Zest Holdings were primarily attributable to Mr. Wu and the Group's willingness to introduce Mr. Ng as a strategic investor of the Group based on an mutual understanding regarding Mr. Ng's potential investment in the liquor business controlled by Mr. Wu reached between Mr. Ng and Mr. Wu, where, subject to the interest of the investee companies, Mr. Wu would favorably consider further investments to be made by Mr. Ng. Such understanding was reached at a time when Mr. Ng was an early-stage investor of Hunan Xiangjiao with the initial investment dating back to 2014. Through such relationship, Mr. Wu and Mr. Ng built up and strengthened mutual trust throughout their years as shareholders of Hunan Xiangjiao, and Mr. Ng also gained abundant confidence in the industry insights, entrepreneurship experience and management capabilities of Mr. Wu in the liquor industry. Consideration was also given to the fact that ChinaNet's investment in the Group was made with no customary special rights granted (unlike Zest Holdings) at such a time with higher investment risk when (i) there was no market valuation from professional institutional investors that could be benchmarked by the Group and Mr. Ng since the Group had not conducted any external equity financing before, and (ii) there was uncertainty as to whether the construction of our new baijiu production facilities which was of strategic importance to our future development would materialize before attracting scalable financing from institutional investors like Zest Holdings.

Information regarding the Pre-IPO Investors

ChinaNet

ChinaNet was incorporated in Hong Kong with limited liability on November 17, 2000. It is a wholly owned subsidiary of Copland Investments Limited, which is in turn wholly owned by Naputa Investment Inc.. Naputa Investment Inc. is wholly owned by Mr. Ng, our executive Director and company secretary. For the biography of Mr. Ng, see "Directors and Senior Management."

Zest Holdings

Zest Holdings was incorporated in Singapore with limited liability on June 30, 2021. Zest Holdings is wholly-owned by Zest Holdings I Pte. Ltd., a company incorporated in Singapore, which is held as to 74.17% by KKR Asian Fund IV Zest AIV L.P., a limited partnership established in Ontario, Canada, and its general partner is KKR AFIV Zest AIV (GP) Limited, a company incorporated in the Cayman Islands. Maples FS Limited, a company incorporated in the Cayman Islands, holds 100% shareholding interests in KKR AFIV Zest AIV (GP) Limited as trustee under a trust fund declared under the laws of the Cayman Islands, and Kohlberg Kravis Roberts & Co. L.P. acts as the investment manager of KKR AFIV Zest AIV (GP) Limited. Kohlberg Kravis Roberts & Co. L.P. is ultimately controlled by KKR & Co Inc., which is a leading global investment firm listed on the New York Stock Exchange (symbol: KKR).

Special Rights of the Pre-IPO Investors

All of our Pre-IPO Investors are bound by the terms of the currently effective memorandum and articles of association of the Company (the "**Current M&A**"), which will be replaced by our Articles effective upon Listing. Pursuant to the Current M&A, all special rights, except the redemption rights, granted to the Zest Holdings, including but not limited to dividend right, right of first refusal, co-sale right, liquidation rights, will be terminated immediately before the Listing. No special rights has been or will be granted to ChinaNet.

The redemption rights of the Zest Holdings shall cease to be exercisable immediately before the first filing of the listing application by our Company with the Stock Exchange, and shall resume to be exercisable upon the earliest of (i) the withdrawal of the listing application by the Company, (ii) the rejection of the listing application by the Stock Exchange, or (iii) the expiry of 12 months from the day of the first filing of the listing application by the Company if no qualified IPO has been consummated by then, or such later date as Zest Holdings and the Company agree in writing. Considering the redemption rights granted to Zest Holdings have been suspended before the first filing of the listing application by our Company with the Stock Exchange and may only resume if the Listing does not take place, the aforesaid arrangements comply with paragraph 3.6(c) of Guidance Letter HKEX-GL43-12.

Joint Sponsors' Confirmation

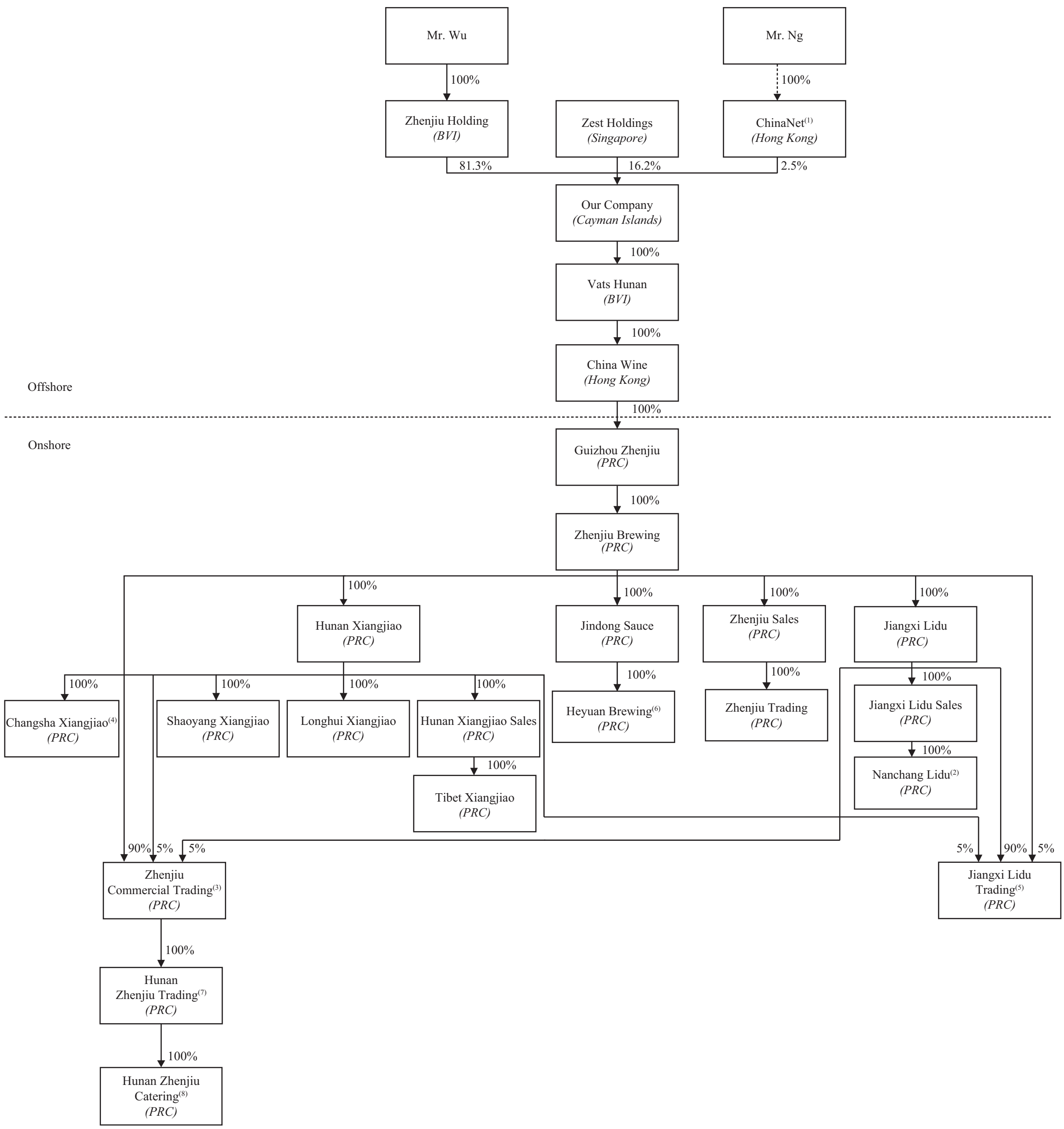
On the basis that (i) the consideration for the Pre-IPO Investments was settled more than 28 clear days before the first filing of the listing application by our Company with the Stock Exchange; and (ii) the termination or cessation of special rights granted to the Pre-IPO Investors as disclosed in "Special Rights of the Pre-IPO Investors" above, the Joint Sponsors confirm that the investments by the Pre-IPO Investors are in compliance with Guidance Letter HKEX-GL29-12 issued in January 2012 and updated in March 2017 by the Stock Exchange, Guidance Letter HKEX-GL43-12 issued in October 2012 and updated in July 2013 and in March 2017 by the Stock Exchange and the Guidance Letter HKEX-GL44-12 issued in October 2012 and updated in March 2017 by the Stock Exchange.

Public Float

Upon completion of the Global Offering (assuming that Over-allotment Option is not exercised), the Shares held by (i) Zhenjiu Holding, which is wholly owned by Mr. Wu, our executive Director, chairman of the Board and a Controlling Shareholder, (ii) Zest Holdings, our substantial shareholder, and (iii) ChinaNet, which is controlled by Mr. Ng, our executive Director, will not be counted towards public float. We have applied to the Stock Exchange to request the Stock Exchange to exercise its discretion under Rule 8.08(1)(d) of the Listing Rules, and the Stock Exchange has granted our Company a waiver from strict compliance with the requirements of Rule 8.08(1)(a) of the Listing Rules. For details, see "Waivers — Public Float Requirement."

CORPORATE STRUCTURE IMMEDIATELY AFTER THE COMPLETION OF THE REORGANIZATION AND THE PRE-IPO INVESTMENTS

The following chart sets forth our corporate and shareholding structure immediately after the completion of the Reorganization and the Pre-IPO Investments but before the completion of the Global Offering:



Notes:

(1) For the shareholding of ChinaNet, see " — Pre-IPO Investments" in this section.
(2) Nanchang Lidu was established in the PRC on September 24, 2021.
(3) Zhenjiu Commercial Trading was established in the PRC on December 10, 2021.
(4) Changsha Xiangjiao was established in the PRC on December 22, 2021.
(5) Jiangxi Lidu Trading was established in the PRC on December 15, 2021.
(6) Heyuan Brewing was established in the PRC on April 29, 2022.

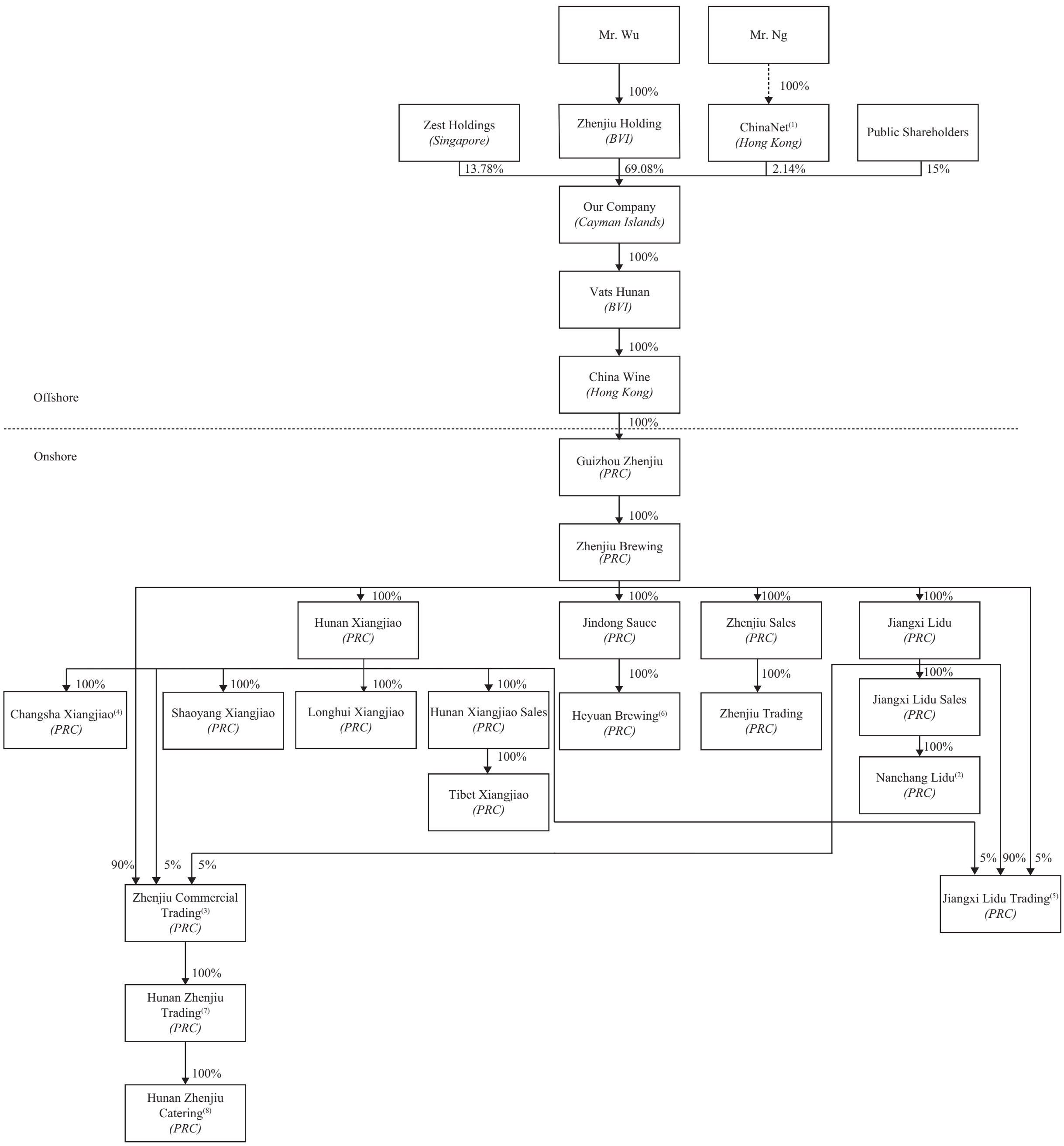
(7) Hunan Zhenjiu Trading was established in the PRC on September 26, 2022.
(8) Hunan Zhenjiu Catering was established in the PRC on November 24, 2022.

SHARE SUBDIVISION AND SHARE REDESIGNATION

Pursuant to the written resolutions of our Shareholders passed on April 11, 2023, (i) each of our issued and unissued ordinary shares of US$0.0001 each was subdivided into 50 Shares of US$0.000002 each and, (ii) each issued and unissued Series A Preferred Share of US$0.0001 was subdivided into 50 Series A Preferred Share of US$0.000002 each. In addition, the Series A Preferred Shares will be converted into Shares on a one-to-one basis by way of re-designation upon the Global Offering becoming unconditional. Following such share subdivision and re-designation, our authorized share capital consists of US$50,000 divided into 25,000,000,000 Shares with a par value of US$0.000002 each.

CORPORATE STRUCTURE IMMEDIATELY AFTER THE COMPLETION OF THE GLOBAL OFFERING

The following chart sets forth our corporate and shareholding structure immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised):



Note:

(1) - (8) Please refer to notes in " — Corporate Structure Immediately after the Completion of the Reorganization and the Pre-IPO Investments" in this section above.

PRC REGULATORY REQUIREMENTS

According to the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**") jointly issued by MOFCOM, the SASAC, the STA, the CSRC, SAIC and the SAFE, on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals from MOFCOM or the department of commerce at the provincial level when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign invested enterprise. The M&A Rules, among other things, further require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

Our PRC Legal Advisor is of the opinion that prior CSRC approval for the Global Offering is not required because (i) Guizhou Zhenjiu was established as a foreign-owned enterprise by means of direct investment rather than the merger or acquisition by our Company under the M&A Rules, (ii) before the acquisition of Zhenjiu Brewing by Guizhou Zhenjiu, Zhenjiu Brewing is a foreign-invested enterprise rather than a domestic company for the purpose of M&A Rules. However, there is uncertainty as to how the M&A Rules will be interpreted or implemented and we cannot assure you that relevant PRC governmental authorities, including the CSRC, would reach the same conclusion as our PRC Legal Advisor.

According to SAFE Circular 37 and SAFE Notice 13, PRC residents shall register with local branches of SAFE or qualified banks in connection with their direct establishment or indirect control of an offshore entity, or a special purpose vehicle, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. SAFE Circular 37 further requires amendment to the registration in the event of any significant changes to the special purpose vehicle (including any change to its basic information). If the shareholders of the offshore holding company who are PRC residents do not complete their registration with the local SAFE branches or qualified banks, the PRC subsidiary may be prohibited from distributing its profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiary. Moreover, failure to comply with SAFE registration and amendment requirements described above could result in liability under PRC law for evasion of applicable foreign exchange restrictions. As advised by our PRC Legal Advisor, Mr. Wu had completed the registrations as required by SAFE Circular 37.

OVERVIEW

Who We Are

We are a leading baijiu company in China devoted to offering premium baijiu products featuring sauce aroma profile. According to Frost & Sullivan, we were the fourth largest privately-owned baijiu company and ranked third among all baijiu companies with three or more aroma types, in terms of revenue in 2021. According to Frost & Sullivan, we ranked 14th among all baijiu companies in China with a market share of 0.8%, in terms of revenue in 2021. We have grown significantly faster than the industry average during the Track Record Period. Our growth capitalized on the increasing popularity of sauce aroma baijiu across China and consumer preferences towards premiumization, and we are expected to continue to benefit from these market trends. We operate four major baijiu brands in China, including our flagship brand *Zhen Jiu* (珍酒), a thriving brand *Li Du* (李渡), as well as two regional leading brands *Xiang Jiao* (湘窖) and *Kai Kou Xiao* (開口笑). Leveraging these renowned brands, we promote traditional Chinese baijiu culture by developing a broad selection of fragrant, mellow baijiu products to appeal to different consumer preferences and capture broader market opportunities.

We aspire to carry forward rich culture heritage and turn every drop of aromatic baijiu into a joyful and memorable moment. Since our inception, we have been striving to make the best-quality products and bring cheerfulness to baijiu consumer community. We are committed to the traditional time-honored baijiu-making techniques and reinvigorating them by taking advantage of modern technologies to develop iconic recipes and tastes. We selectively locate all of our production facilities for sauce aroma baijiu in Guizhou's Zunyi region, the most ideal place for making the finest sauce aroma baijiu in China, to secure the unique texture and taste of our *Zhen Jiu* products.

Our Market Opportunities

Baijiu is China's national liquor and the world's most consumed liquor. Baijiu accounted for 69.5% of the alcoholic beverage market in China in terms of revenue in 2021, exceeding wine's 49.9% market share in French alcoholic beverage market and beer's 50.5% market share in the U.S. alcoholic beverage market in the same period, according to Frost & Sullivan. The market size of baijiu industry in China increased from RMB565.4 billion in 2017 to RMB603.3 billion in 2021, at a CAGR of 1.6%, and is expected to grow from RMB621.1 billion in 2022 to RMB769.5 billion in 2026, at a CAGR of 5.5% driven primarily by the premiumization trend and high growth potential of sauce aroma baijiu, according to Frost & Sullivan.

Baijiu products in China are classified into four price hierarchies, i.e., deluxe, premium, mid-range and low-end. Leveraging our insight into the premiumization trend as well as our rich heritage and strong brand recognition, we primarily target our products at the premium and above baijiu market. As a percentage of our total revenue, revenue generated from our premium and above baijiu products increased from 51.8% in 2020 to 65.4% in 2022. The market size of premium and above baijiu in China grew at a CAGR of 13.1% from 2017 to 2021, and is expected to grow at the fastest rate among all price ranges, at a CAGR of 12.3% from 2022 to 2026, from RMB234.1 billion in 2022 to RMB371.9 billion in 2026, according to Frost & Sullivan. The market share of premium and above baijiu in China's baijiu market grew from 23.3% in 2017 to 35.7% in 2021, and is expected to grow from 37.7% in 2022 to 48.3% in 2026. To better adapt to the premiumization trend in baijiu market, we are further expanding our premium and above product portfolio, increasing our baijiu production capacity for premium and above baijiu and growing our multi-channel sales network characteristic with immersive promotion strategy.

Baijiu products in China are classified into 12 aroma profiles according to their different flavors generated by varied production techniques and processes. Among these aroma profiles, the biggest four aroma profiles are strong aroma, sauce aroma, light aroma and mixed aroma. 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, in 2021, the market size of these three baijiu aroma profiles was approximately RMB506.9 billion, accounting for nearly 85% of the total market size, with the sauce aroma profile having the highest growth potential. As a percentage of our total revenue, revenue generated from our sauce aroma baijiu products increased from 59.6% in 2020 to 71.4% in 2022. The market size of sauce aroma baijiu in China grew at a CAGR of 15.8% from 2017 to 2021, and is expected to grow at a CAGR of 12.2% from 2022 to 2026, from RMB203.3 billion in 2022 to RMB321.7 billion in 2026. The market share of sauce aroma baijiu in China's baijiu market grew from 18.7% in 2017 to 31.5% in 2021, and is expected to grow from 32.7% in 2022 to 41.8% in 2026, surpassing that of strong aroma baijiu and becoming the largest among all aroma profiles. While experiencing growing popularity among consumers, premium sauce aroma baijiu has been in short supply due to the intricate process and longer period of production, and the scarcity of suitable terroir. As a result, sauce aroma baijiu, which accounts for only 8.4% of the total baijiu production in China, generated 31.5% of the revenue and over 45% of the profit of China's entire baijiu industry in 2021. The growing popularity of sauce aroma baijiu underpins promising growth potential. We believe we are well positioned to continue to benefit from this trend, especially with the continued growth of our flagship sauce aroma brand *Zhen Jiu*.

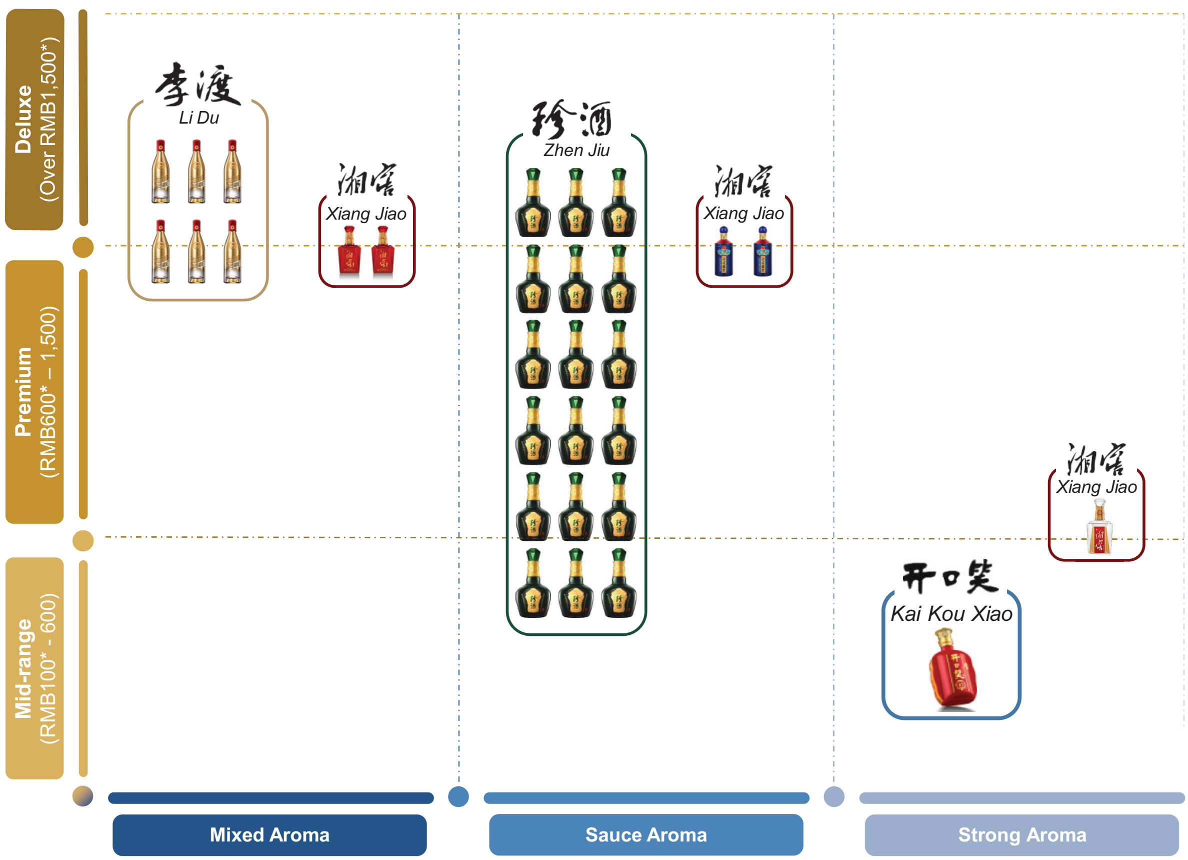
Our Growth Engines

We have built three tiers of growth engines consisting of a brand portfolio with precise product positioning targeting diverse consumer preferences and geographic areas. Our flagship brand *Zhen Jiu*, which primarily targets sauce aroma baijiu lovers, was the fifth largest sauce aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five sauce aroma baijiu brands in China in the same year, according to Frost & Sullivan. *Zhen Jiu* ranked the fourth and the third, respectively, among all sauce aroma baijiu brands in China and in Guizhou in terms of annual production capacity of base liquor by the end of 2022, according to the same source. *Li Du*, a thriving brand featuring premium and above mixed aroma baijiu products, has gained great success and is expanding into the national market. *Li Du* was the fifth largest mixed aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five mixed aroma baijiu brands in China in the same year, according to Frost & Sullivan. We operate *Xiang Jiao* and *Kai Kou Xiao*, regional leading brands in the Hunan market with one entity, which was the second largest Hunan baijiu company in terms of revenue in 2021, according to the same source. *Zhen Jiu* is our major growth engine that continuously delivers strong and sizable growth across China; *Li Du*, our second growth engine, is expected to create additional momentum for continued growth; *Xiang Jiao* and *Kai Kou Xiao* are expected to continue to contribute to our long-term sustainable growth. Through dynamic management of our brand portfolio and leveraging our expertise to identify favorable market trends, our three tiers of growth engines as a whole are well positioned to drive strong and sustainable growth over the long term.

During the Track Record Period, we achieved strong growth and outstanding profitability. In 2020, 2021 and 2022, our total revenue reached RMB2,398.9 million, RMB5,101.6 million and RMB5,855.9 million, respectively, representing an increase by 112.7% from 2020 to 2021 and an increase by 14.8% from 2021 to 2022. In 2020, 2021 and 2022, our net profit margin was 21.7%, 20.2% and 17.6%, respectively, while our adjusted net profit margin (non-IFRS measure) for the same periods was 21.7%, 21.0% and 20.4%, respectively.

Our Brands and Products

We primarily operate four baijiu brands in China, including our flagship brand *Zhen Jiu*, a thriving brand *Li Du*, as well as two regional leading brands *Xiang Jiao* and *Kai Kou Xiao*. We position our four baijiu brands to target different consumer preferences and geographic areas in China, with our product portfolio covering three aroma profiles across different price ranges, as illustrated in the following diagram.



*Note: Price range refers to recommended retail price per volume of 500ml; * means including.*

Zhen Jiu, our flagship brand, primarily targets sauce aroma baijiu lovers who crave for premium, quality sauce aroma baijiu products, and generated 65.3% of our revenue for the year ended December 31, 2022. It can be traced back to a key national technical development project initiated in 1975, aiming to produce high-quality sauce aroma baijiu in other locations in Guizhou's Zunyi region that can match one of China's most prestigious baijiu brands. Through years of tireless efforts, *Zhen Jiu* successfully passed the production test appraisal in 1985 by a dedicated evaluation team consisting of governmental authorities and industry experts, marking its alignment in texture and flavor. *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 Zhen 30 (珍三十) Series and Zhen 15 (珍十五) Series which achieved great market acceptance and international recognition. *Zhen Jiu* was the fifth largest sauce aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five sauce aroma baijiu brands in China in the same year, according to Frost & Sullivan, successfully expanding its presence to 31 provincial areas in China.

Li Du is a thriving brand focused on producing and marketing premium and above mixed aroma baijiu products and generated 15.1% of our revenue for the year ended December 31, 2022. *Li Du* was the fifth largest mixed aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five mixed aroma baijiu brands in China in the same year. Our brand *Li Du* was established to honor its origin from Lidu, Jiangxi, 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 and was subsequently named on the list of Major National Historical and Cultural Sites. 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).

Xiang Jiao and *Kai Kou Xiao* are regional leading brands in Hunan with diversified aroma profiles and broad product offerings at different price points. They generated 12.2% and 5.8% of our revenue for the year ended December 31, 2022, respectively. Originally established in 1957, *Xiang Jiao* was synonymous with the rich cultural heritage of baijiu-making in Hunan. At *Xiang Jiao*, we offer a wide range of premium 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·要情酒), Xiang Jiao Red Diamond (湘窖酒·紅鑽) and Xiang Jiao Crystal Diamond (湘窖酒·水晶鑽). 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. At *Kai Kou Xiao*, we mainly offer strong aroma baijiu products targeting the mid-range market, represented by Kai Kou Xiao 20 (開口笑酒20), Kai Kou Xiao 15 (開口笑酒15) and Kai Kou Xiao 9 (開口笑酒9).

The following diagram illustrates the representative products of our four major baijiu brands according to different price ranges and aroma profiles.

*Note: Price range refers to recommended retail price per volume of 500ml; * means including.*

The following table sets out a breakdown of our revenue by baijiu brand for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Zhen Jiu	1,345,546	56.1	3,487,573	68.4	3,822,696	65.3
Li Du	359,225	15.0	649,954	12.7	886,850	15.1
Xiang Jiao	394,879	16.5	605,569	11.9	712,791	12.2
Kai Kou Xiao	172,033	7.1	256,579	5.0	338,675	5.8
Others*	127,232	5.3	101,918	2.0	94,905	1.6
Total	**2,398,915**	**100.0**	**5,101,593**	**100.0**	**5,855,917**	**100.0**

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

Our Production Highlights

We are committed to the time-honored traditional baijiu-making techniques and reinvigorating them by taking advantage of modern technologies to develop iconic tastes. Our flagship brand *Zhen Jiu* can trace its baijiu-making techniques to one of China's most prestigious baijiu brands. We take pride in the distinctive sauce aroma, refined and delicate taste with lingering aftertaste of our *Zhen Jiu* products attributable to its profoundly intricate process of baijiu making. In particular, we meticulously blend our

Zhen Jiu products to offer a full-bodied texture, catering to evolving consumer trends. Building on the strong traditional Chinese baijiu culture in Lidu, Jiangxi, we pride ourselves on inheriting and reinvigorating the long-standing baijiu-making techniques and process. The unique, layered tastes of our *Li Du* products are partially shaped by the distinct group of active microorganisms in the fermentation environment, gradually formed in the long history of baijiu making in the town of Lidu, which could be traced back to the Yuan Dynasty (1271 AD to 1368 AD).

Furthermore, we strategically locate our production facilities in geographic regions most favorable for baijiu making, to ensure that our traditional baijiu-making techniques and local natural geographical advantages complement each other. We leverage the mild, humid climate, favorable terroirs, long history of baijiu making and abundant natural resources, such as sufficient locally grown grains and plentiful water, within these geographic regions to produce high-quality baijiu. We produce our baijiu products in our production facilities. As of the Latest Practicable Date, we had six production facilities in operation. We commenced the expansion of three existing production facilities as well as the construction of one new production facility as of the Latest Practicable Date. These planned projects are expected to increase our annual production capacity of base liquor by 26,000 tons by 2024, among which 16,600 tons are for sauce aroma base liquor.

Our Multi-Channel Sales and Marketing

Tailoring to the consumption pattern of baijiu products, we have established an extensive sales network across China and reached consumers through multiple channels we have been actively exploring. Our sales channels consist of a broad distribution network and our direct sales channel. As of December 31, 2022, we collaborated with 6,618 distributors in 31 provincial areas across China to promote and sell our baijiu products. Our distribution network consists of distribution partners, featured stores and retailers. As of December 31, 2022, our distribution partners worked with over 189,000 points of sale to sell our baijiu products, with over 112,000 of whom connected to our digital sales management app. During the Track Record Period, we increased our cooperation with featured stores and retailers to promote our brand image and strengthen our connections to end consumers. In 2020, 2021 and 2022, revenue generated from our distribution network represented 88.1%, 88.8% and 88.8% of our total revenue, respectively. We also sell our products directly to group-purchase consumers or through online stores operated by us and our online distributors on different e-commerce platforms. From 2020 to 2022, revenue from online channels as a percentage of our total revenue increased from 3.7% to 6.5%.

In addition to our multiple sales channels, the successful promotion of baijiu products, particularly premium and above products, hinges on building and maintaining direct connections with consumers to nudge them from initial awareness, to trial and, ultimately, to become our brand advocates. We adopt an immersive promotion strategy, which, combined with our quality baijiu products, creates a vast, loyal consumer base with attractive cross-selling opportunities. In addition, we also dedicate our on-the-ground sales team, consisting of the vast majority of our 4,060 employees under our sales and marketing function as of December 31, 2022, to supporting our distributors' marketing efforts, managing our distribution network and engaging end consumers. We believe adopting such a promotion strategy is a long-term investment that will pay off throughout our journey, and we have devoted an increasing amount of our on-the-ground sales team and resources to it. We engage our consumers via multiple approaches including immersive brand education experiences, tailor-made interactive events, as well as influential brand stories.

OUR COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our continuous growth and differentiated us from our competitors.

A leading baijiu company carrying forward rich heritage and winning strong brand recognition

We are a leading baijiu company in China with strong growth momentum and influential brands devoted to offering premium baijiu featuring sauce aroma profile. According to Frost & Sullivan, we were the fourth largest privately-owned baijiu company and ranked third among all baijiu companies with three or more aroma types, in terms of revenue in 2021. According to Frost & Sullivan, we ranked 14th among all baijiu companies in China with a market share of 0.8%, in terms of revenue in 2021. Our flagship brand *Zhen Jiu*, which targets sauce aroma baijiu lovers, was the fifth largest sauce aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five sauce aroma baijiu brands in China in the same year. *Li Du* was the fifth largest mixed aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five mixed aroma baijiu brands in China in the same year. Underlying our achievements are our rich heritage and strong brand recognition that differentiate us from competitors in the highly competitive baijiu industry in China.

Baijiu is China's national liquor. There are long histories and rich traditions of consuming baijiu and baijiu has become an integral part of Chinese culture. It is ubiquitous at formal dinners and family get-togethers and essential to celebrations and special occasions. This culture nurtured us and firmed up our mission, "carry forward rich culture heritage and turn every drop of aromatic baijiu into a joyful and memorable moment." We named our flagship baijiu brand *Zhen Jiu*, or "Treasure of Liquor," inspired by the praise from a former vice premier of China who tasted our baijiu. The praise reflects both the techniques that were passed down to us as well as the refined and delicate taste with lingering aftertaste and full-bodied texture of our products. The baijiu-making techniques of *Li Du* were awarded as Intangible Cultural Heritage of Jiangxi in 2006. Our Lidu Yuan Dynasty baijiu distillery site was named one of the Top Ten New Archeological Discoveries in China in 2002 and was accredited by the State Council as a Major National Historical and Cultural Sites Protected in May 2006. These heritages embedded in our products provide our consumers with a compelling narrative to relate to, and, more importantly, to share with others as they enjoy our products at social events with friends and business partners.

Rooted in our rich heritage, we strive to build our brands epitomizing Chinese premium baijiu. With product quality at our heart, our brands and key products are well recognized by industry experts, government authorities, international awards, and, ultimately, consumers. *Zhen Jiu* was served as the designated alcoholic drink on State Banquets by central governmental authorities, reflecting the official recognition of our brand and products. In 1988, three years after it successfully passed the production test appraisal, *Zhen Jiu* won the fifth National Quality Award — Silver Medal for Baijiu, recognized as one of the top three sauce aroma brands in Guizhou. The National Quality Award is widely recognized as one of the most authoritative awards for baijiu in the industry, according to Frost & Sullivan. We are committed to creating the best drinking experience and expanding our brand awareness through our popular products with high quality. For example, Zhen 30 (珍三十) Series and Zhen 15 (珍十五) Series, our representative deluxe and premium sauce aroma baijiu products, appealing to consumers nationwide for their distinctive sauce aroma, refined and delicate taste with lingering aftertaste, and full-bodied texture, were awarded Double Gold Medal and Gold Medal at San

Francisco World Spirits Competition in 2022, respectively. Li Du Sorghum 1308 (李渡高粱1308) and Li Du Sorghum 1955 (李渡高粱1955), our representative mixed aroma baijiu products combining the taste and fragrance of strong and special aroma profiles to form unique, layered tastes, won the Grand Gold Medals from the Spirits Selection by Concours Mondial de Bruxelles in 2015 and 2019, respectively.

Our distinctive brand images, strong brand recognition and high-quality offerings are keys to attract consumers and cultivate strong brand loyalty. According to a survey conducted by Frost & Sullivan in 2021, more than 90% of the consumers who purchased our baijiu products would repurchase baijiu products under our brands.

Three tiers of growth engines driving strong and sustainable growth

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 high growth potential of the sauce aroma baijiu market and the premiumization trend. *Li Du*, a thriving brand featuring premium and above mixed aroma baijiu products, has delivered high growth and is expected to create additional momentum for continued growth by further strengthening its brand recognition and sales network nationwide outside of Jiangxi. *Xiang Jiao* and *Kai Kou Xiao*, regional leading brands in the Hunan market, are expected to continue to contribute to our long-term sustainable growth. We are the only baijiu company in China that operates three premium and above baijiu brands, among the top 15 baijiu companies in terms of revenue, according to Frost & Sullivan. In their respective stages of growth, the three tiers of growth engines complement one another and work in concert to drive long-term growth that we believe to be strong and sustainable.

The three tiers of growth engines have captured the opportunities presented by the increasing popularity of sauce aroma baijiu across China and consumer preferences towards premiumization. We expect that we will continue to capitalize on these market trends leveraging our three tiers of growth engines. The market size of premium and above baijiu in China grew at a CAGR of 13.1% from 2017 to 2021, and is expected to grow at the fastest rate among all price ranges, at a CAGR of 12.3% from 2022 to 2026, from RMB234.1 billion in 2022 to RMB371.9 billion in 2026, according to Frost & Sullivan. The market share of premium and above baijiu in China's baijiu market grew from 23.3% in 2017 to 35.7% in 2021, and is expected to grow from 37.7% in 2022 to 48.3% in 2026. The market size of sauce aroma baijiu in China grew at a CAGR of 15.8% from 2017 to 2021, and is expected to grow at a CAGR of 12.2% from 2022 to 2026, from RMB203.3 billion in 2022 to RMB321.7 billion in 2026. The market share of sauce aroma baijiu in China's baijiu market grew from 18.7% in 2017 to 31.5% in 2021, and is expected to grow from 32.7% in 2022 to 41.8% in 2026 surpassing that of strong aroma baijiu and becoming the largest among all aroma profiles. Sauce aroma baijiu, which accounts for only 8.4% of the total baijiu production in China, generated 31.5% of the revenue and over 45% of the profit of China's entire baijiu industry in 2021.

At *Zhen Jiu*, we have been tremendously successful in making our popular premium sauce aroma baijiu products, including the Zhen 30 (珍三十) Series and the Zhen 15 (珍十五) Series that achieved great market acceptance nationwide. During the Track Record Period, *Zhen Jiu* experienced rapid growth, with revenue increasing by 159.2% from RMB1,345.5 million in 2020 to RMB3,487.6 million in 2021. As a percentage of *Zhen Jiu*'s total revenue, revenue contributed by premium and above *Zhen Jiu* products increased from 55.1% in 2021 to 68.4% in 2022. *Zhen Jiu*'s growth is also driven by expanded and deepened market presence across China, with the number of our distributors increased by 83.2% from 3,613 as of the start of 2021 to 6,618 as of the end of 2022. As a percentage of its total revenue from distributors, *Zhen Jiu*'s revenue generated from distributors of regions outside of Guizhou, which initially was our biggest regional market, achieved 82.5% in 2022. *Zhen Jiu* also established robust sauce aroma baijiu production capacity in Zunyi region with superb terroir for producing sauce aroma baijiu. We expect to expand sauce aroma baijiu production capacity progressively which coupled with *Zhen Jiu*'s increasing brand recognition, outstanding product competitiveness, national sales networks, makes *Zhen Jiu* our major growth driver.

Li Du has established itself as a brand with increasing nationwide presence and influence, leveraging the strong heritage and renowned layered-tastes embodied in its products. The representative *Li Du* products include 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) focusing on the premium and above market segment. *Li Du* achieved substantial growth during the Track Record Period. Its revenue increased by 80.9% from RMB359.2 million in 2020 to RMB650.0 million in 2021, primarily driven by the market success of the premium and above products and immersive promotion strategy that demonstrates *Li Du*'s unique history heritage which resonates with avid baijiu lovers. As a percentage of *Li Du*'s total revenue, revenue contributed by premium and above *Li Du* products increased from 75.5% in 2021 to 76.7% in 2022. *Li Du* is expanding nationwide by strengthening its brand recognition and sales network, and serves as our second growth engine to boost further growth.

Xiang Jiao and *Kai Kou Xiao* have developed diversified aroma profiles and broad product offerings at various price points to cater to the varied consumer preferences in the Hunan market. Leveraging their well-established sales network to deeply penetrate the local market and achieve high consumer recognition, *Xiang Jiao* and *Kai Kou Xiao* have maintained steady growth. The revenue of *Xiang Jiao* increased by 53.4% from RMB394.9 million in 2020 to RMB605.6 million in 2021 and the revenue of *Kai Kou Xiao* increased by 49.1% from RMB172.0 million in 2020 to RMB256.6 million in 2021. Through dynamic management of their product portfolio to adapt to evolving market demands, they serve as a solid base to support our stable and sustainable growth.

Sizable production capacity located in scarce and top baijiu production regions underpinning our core competitiveness and long-term growth potential

All of our production facilities for *Zhen Jiu* are strategically located in Guizhou's Zunyi region, a place that is widely considered ideal for making fine sauce aroma baijiu in China. Our sizable production capacity in this region lays the foundation for steady output of high-quality base liquor, which plays a pivotal role in ensuring consistent production of premium baijiu at scale and further enriching our high-end product offerings. By the end of 2022, *Zhen Jiu* ranked fourth and third among all sauce aroma baijiu brands in China and in Guizhou, respectively, in terms of annual production capacity of base liquor, according to Frost & Sullivan. Sizable production capacity of sauce aroma baijiu is our core competitiveness that is difficult for competitors to match, due to the scarcity of premium baijiu production regions and the substantial capital investment needed.

According to Frost & Sullivan, Guizhou is an ideal place for the production of sauce aroma baijiu, and produced over 80% of China's sauce aroma baijiu in 2021. Within Guizhou, the Zunyi region is the core production region for sauce aroma baijiu, where all of our production facilities for *Zhen Jiu* are strategically located. With long summers and short winters, the Zunyi region enjoys a mild climate and high relative humidity, which constitute a preferable ecological environment for making sauce aroma baijiu. Such an ecological environment contains a vast community of active micro-organisms essential for generating the intriguing sauce aroma. In recent years, many small baijiu production plants in the Zunyi region were requested to shut down by local government due to improper production and waste disposal protocols. The consolidation of local production capacity and a growing appetite for baijiu produced in the Zunyi region made its production capacity more valuable, according to Frost & Sullivan. Against the backdrop, we benefit from higher entry barriers and the resulting greater scarcity of our sizable production capacity. As of the Latest Practicable Date, we operated three production facilities in the Zunyi region, with designed annual capacity of 35,000 tons sauce aroma base liquor. As of the Latest Practicable Date, we had commenced the expansion of two of these production facilities. By 2024, these planned expansions are expected to gradually increase our annual production capacity of sauce aroma base liquor by 16,600 tons. We are progressively securing superb terroir for sauce aroma base liquor and expanding our production facilities to capture the growth potential in a large and growing baijiu market and to strengthen our core competitiveness.

To maintain the scarce local ecological environment, attract local talent and secure quality raw materials, we are fully committed to sustainable development. We are engaged in multiple water stewardship efforts and adopt a range of energy reduction and carbon reduction measures. We have also been sourcing and purchasing agricultural materials produced locally, such as the red tassel sorghum that are indispensable for making premium sauce aroma baijiu, thereby encouraging farmers in the surrounding low-income areas to cultivate crops with greater confidence.

Meticulous baijiu-making techniques and solid product development capabilities demonstrated by well-liked products

To produce baijiu products with consistent high quality at scale, we adhere to traditional baijiu-making techniques to make base liquor, while leveraging modern technologies and facilities.

- At *Zhen Jiu*, we comply with meticulous baijiu-making techniques traced back to that of one of the most prestigious sauce aroma baijiu brands for our premium sauce aroma baijiu products to preserve the distinctive sauce flavor and full-bodied texture. The entire fermentation and distillation process for sauce aroma baijiu is the most complex among all aroma profiles. It usually takes approximately 11 months to finish, during which the grains are steamed and cooked nine times, between which the fermentation process is repeated eight times, followed by seven times of distillation. Mastery of each stage in the production chain is essential to the aromatic quality. We carry out this complex process to facilitate delicate collaboration of many ingredients and microorganisms to generate a synergistic effect that enhances the aroma of base liquor.

- At *Li Du*, we follow the traditional techniques that could be traced back to Yuan Dynasty to create a unique, layered flavor, with strong fragrance, rice-flavor beginning taste, light mid-palate and sauce-flavor aftertaste. The biodiversity that *Li Du* balances in its fermentation process is integral to its baijiu-making process. Our *Li Du* products' unique, layered tastes are partially shaped by the distinct group of active operational taxonomic units rich in the fermentation pit mud, gradually formed in the long history of baijiu making in the town of Lidu.

We install advanced equipment and use digitalization to streamline and optimize the production process. We adopt a digitalized base liquor management system that leverages the digital simulation technologies to improve base liquor storage and aging.

Our solid product development capabilities are pivotal to the flavors of our products and the constant product innovations to cater to the demand for better taste and enjoyable drinking experience. Our baijiu products are consummated by blending, an exploration for harmony and consistency. Our baijiu products showcase signature blending techniques and know-how that are preserved and optimized by blending experts and acquired and developed by our growing team of blending specialists. Our product development team is spearheaded by a technical committee consisting of 25 well-recognized baijiu experts with in-depth industry experience ranging from baijiu making and tasting to baijiu blending, among whom four are national baijiu appraisers, nine hold senior baijiu-maker certificates, and ten hold senior engineer qualifications. We have also strengthened our product development capabilities by collaborating with several universities and research institutions, such as Jiangnan University, Central South University of Forestry, Guizhou Institute of Technology and Tianjin University of Science and Technology. With the technical support from these academic institutions, we have identified certain traceable components during baijiu production for the enhancement of the flavor and functional quality of our baijiu products. The results of our collaborative research have been recognized, with our win of the Second Prize of the Science and Technology Award by the China Food Industry Association in 2014 and 2021.

Our meticulous baijiu-making techniques and proven product development capability underpin the successful launch of our popular products, which constitutes a crucial driver for our strong growth. We have been continuously advancing our product offerings through selective introduction of new products and upgrades to meet the ever-changing needs of consumers and marketplace. At *Zhen Jiu*, Zhen 30 (珍三十) Series and Zhen 15 (珍十五) Series gradually became our popular products, with gross sales of approximately RMB0.5 billion and RMB1.5 billion, respectively, in 2021. At *Li Du*, we have launched Li Du Sorghum 1308 (李渡高粱1308), the first deluxe product under this brand and achieved gross sales of over RMB200 million in the first twelve months following its launch. At *Xiang Jiao*, we launched Xiang Jiao Long Jiang (湘窖·龍匠) Series, a popular premium sauce aroma product series under this brand, in 2020, and achieved gross sales of approximately RMB700 million since its launch in 2020.

Extensive multi-channel sales network characterized by immersive promotion strategies

Tailoring to the consumption pattern of baijiu products, we have established an extensive sales network across China and reached consumers through multiple channels we have been actively exploring. Our sales channels consist of a broad distribution network and our direct sales channel. As of December 31, 2022, we collaborated with 6,618 distributors in 31 provincial areas across China to promote and sell our baijiu products. The distribution network we work with consists of distribution partners, featured stores and retailers. As of December 31, 2022, our distribution partners worked with over 189,000 points of sale to sell our baijiu products, with over 112,000 of whom connected to our digital sales management app. During the Track Record Period, we increased our cooperation with featured stores and retailers to promote our brand image and strengthen our connections to end consumers. In 2020, 2021 and 2022, revenue generated from our distribution network represented 88.1%, 88.8% and 88.8% of our total revenue, respectively. We also sell our products directly to group-purchase consumers and through our online stores on different e-commerce platforms. From 2020 to 2022, revenue from online channels as a percentage of our total revenue increased from 3.7% to 6.5%.

Consumers are increasingly seeking brands that are culturally relevant to them. In addition to our multiple sales channels, the successful promotion of baijiu products, particularly premium and above products, hinges on building and maintaining direct connections with consumers to nudge them from initial awareness, to trial and, ultimately, to become our brand advocates. We adopt an innovative, immersive promotion strategy, which, combined with our quality baijiu products, creates a vast, loyal consumer base. In addition, we also dedicate our on-the-ground sales team, consisting of the vast majority of our 4,060 employees under our sales and marketing function as of December 31, 2022, to supporting our distributors' marketing efforts, managing distribution networks and engaging end consumers. We believe adopting such a promotion strategy is a long-term investment that will pay off throughout our journey, and we are devoting an increasing amount of our on-the-ground sales team and resources to it. We engage our consumers via multiple approaches:

- *Immersive brand education experiences.* We promote immersive and engaging baijiu culture and brand education experiences through distillery tours. Under each brand, we opened up part of our production facilities to the public for distillery tours, among which *Li Du* and *Xiang Jiao*'s distilleries were awarded with the designation of the National AAAA-level Tourist Attraction, indulging consumers in the charm of Chinese baijiu culture, the fun of traditional baijiu making and blending with their efforts, as well as increasing their understanding of the distinctive features of our quality products. For example, *Li Du* rides on the China chic trend and leverages the deep heritage behind the brand to launch various cultural tourism products that allow tourists to participate in local cultural events and appreciate local intangible cultural heritage such as baijiu-related ritualistic activities. In 2021 alone, our distillery tours attracted over 163,000 visits.

- *Tailor-made interactive events.* We work with our distributors to organize a variety of tailor-made events through one-on-one or small group interactions to connect to our consumers. Consumers may enjoy and purchase our baijiu products while immersing themselves in the joyful and personalized experiences created through baijiu tasting events, exclusive dining experiences and memorable celebration moments. Consumers attracted by our products and activities at the featured stores often bring their friends or business partners with them and help promote our products and services through word of mouth.

- *Influential brand stories.* We work with baijiu experts and influencers to create engaging online contents and promote our brand images via digital platforms such as Douyin, Weixin and Weibo, to launch target marketing activities to convey our brand propositions and encourage viral dissemination of our brand stories.

Stringent quality control system assuring consistent and premium quality

We believe food safety and product quality are of paramount importance to our day-to-day business operations. Our relentless efforts in food safety and product quality can be exemplified by a number of certifications we are accredited to by reputable certification institutions, including the Hazard Analysis Critical Control Point (HACCP) certification, ISO9001 certification, Food Safety Management System (FSMS) certification and Occupational Health and Safety Management System (OHSMS) certification.

We have established a closed-loop quality management system which is empowered by technology infrastructure covering from raw materials procurement to sales order management.

- *Supply chain management.* We maintain a list of qualified suppliers, who have a proven record of reliable and stable supply, and we only partner with such qualified suppliers. We implement stringent policies to manage our suppliers including admission, maintenance and dismissal based on assessment results, in order to strictly control the quality of the materials supply. We also dispatch specialists to our core suppliers' premises to monitor their production process and provide guidance in order to gain more control over product quality.

- *Production process*. We have quality control personnel at each of our production facilities as well as at the headquarters, who are responsible for formulating and implementing our quality control measures during the production process. We require our employees to strictly adhere to the procedures and standards stipulated in the measures to make sure the flavor, quality and hygiene of our baijiu products meet our standards. Furthermore, we have a number of advanced equipment and instruments such as multi-modalities gas chromatography, high performance liquid chromatography-mass spectrometry (LC-MS) systems and isotope ratio mass spectrometry (IRMS) systems for profiling, screening, identifying and analyzing a wide variety of compounds to improve the quality and consistency of our baijiu products.

- *Logistics and warehousing*. To ensure effective management of daily logistics, we maintain a comprehensive record of goods in transit such as name, responsible supplier, delivery date and shelf life. We impose strict standards for the storage of different raw material, work-in-progress and finished products. A dedicated in-house quality control team performs stringent quality checks regularly and monitors the storage and usage status in each warehouses.

- *Product traceability*. We have also set up a dedicated channel and product quality assurance team and information tracing system to extend our quality control to product transportation and sales. By developing our QR code system incorporated with RFID technology, we are able to track and trace individual products through the sales channel and provide a higher level of anti-counterfeiting protection.

Insightful founder and experienced senior management supported by skilled employees with strong industry experience

We are led by our founder Mr. Wu and a team of dedicated and experienced senior management. Our Founder and Chairman, Mr. Wu Xiangdong, is a serial entrepreneur with over 20 years of experience in the baijiu industry with a proven record of successful entrepreneurship. His leadership, combined with his deep industry expertise derived from his deep experience covering the whole baijiu industry value chain from production to sales and distribution, enables him to spearhead the sustainable growth of our business. Our founder is supported by a professional senior management team with rich industry experience and professional qualifications. They bring us an average of over 17 years of experience spanning all major aspects of our business, including business operation, branding and marketing, supply chain management, and financial expertise from industry leading public and private companies. See "Directors and Senior Management" for the detailed descriptions of our management team's experience and qualifications. Since inception, we stand to recruit and cultivate the right people that are committed to excellence, innovation and integrity, with a passion for our brand and China's baijiu industry. Our philosophy in talent development focuses on offering growth opportunities at all levels within our company and continuing to pass on our years of inherited technical and management experience to younger generations to nurture future leaders in the industry. Led by experienced experts like Mr. Zhu Guojun, who has more than 20 years of experience in baijiu making with profound understanding of industry expertise and unique insight into technological innovation, we have cultivated a number of high-quality technical and skilled talents who are familiar with and adept at our baijiu making techniques, providing strong support for our long-term development.

OUR GROWTH STRATEGIES

We plan to implement the following strategies to achieve our long-term goals.

Continue to enhance brand awareness and recognition

As a leading baijiu company in China with strong growth momentum and influential brands, we will further devote our efforts to brand building to enhance our brand recognition and consumer engagement.

We intend to develop brand promotion strategies highlighting our product quality while tailoring to the characteristics of our different baijiu brands and target consumer groups. We plan to continue to drive brand awareness of *Zhen Jiu* to reinforce its brand message to further penetrate the national market, advance *Li Du* as a distinctive and premium baijiu brand that embodies its rich heritage, expand the influence of our *Xiang Jiao* brand in the Hunan market, as well as focus on promoting and marketing our *Kai Kou Xiao* products in the mass market.

We will continue to develop personalized consumer interactions to further enhance consumer stickiness and brand loyalty. We plan to enhance immersive brand education experience and hold more distillery tours. Meanwhile, we intend to invest in providing more tailor-made interactive events in broader geographic areas. Approximately 20.0% of the estimated net proceeds of our Global Offering, or HK$1,104 million, will be used in future brand building and market promotion.

Further expand our production capacity to strengthen our core competitiveness

Sizable production capacity of sauce aroma baijiu is our core competitiveness that is difficult to replicate, due to the scarcity of premium baijiu production regions and the substantial capital investment needed. We are progressively securing superb terroir suitable for baijiu production and expanding our production facilities to capture the growth potential in the large and growing baijiu market. By 2024, we expect to gradually increase our annual production capacity of sauce aroma base liquor by 16,600 tons. See " — Production Facilities — Planned Production Capacity Expansion." Approximately 55.0% of the estimated net proceeds of our Global Offering, or HK$3,035 million, together with funds from our operation, will be used to fund these subsequent expansions and new constructions. By continuing to expand our production capacity of sauce aroma base liquor, we will gradually enlarge our base liquor reserve with more mellow texture and pleasant flavors gained through aging. This growing strategic asset will enable us to further enrich our product offerings and boost our long-term growth, especially at the higher price range. In addition, we will continue to invest in upgrading facilities and equipment to achieve a greater level of digitalization and intelligence to improve operational efficiency and profitability in the long-term.

Enhance product development and expand product portfolio

We will continue to develop and launch new products that match with market demand, capitalizing on our deep insights into consumers' demand and market trends that we have gained over the years. We intend to expand our product sales to penetrate more regions, and at the same time enhance consumer retention and stickiness. We plan to expand our product portfolio through the launch of compelling new baijiu products with a focus on the ones targeting high-spending consumers, such as vintage sauce aroma baijiu products, as well as the enrichment of existing product series to offer a wider range of choices of diversified flavors that we meticulously blended. Meanwhile, we also intend to differentiate our product offerings by rolling out customized and collector's edition products featured with cultural elements and creative ideas, catering to the evolving consumer preferences and personalized consumer needs. To this end, we plan to strengthen our collaborations with reputable universities and research institutions to develop new products with diverse flavors. Our *Zhen Jiu* and *Li Du* brands will continue to adopt the premiumization strategy and launch more high-end products.

Continue to expand our sales network

In the meantime, we seek to increase the density of our existing distribution network. We will continue to focus on key sales territories while further optimizing the control covering our sales network with the aim to provide consumers with improved service and a more satisfying consumer experience. Additionally, we intend to continue to expand consumer coverage through our planned investment in sales channels expansion. On the one hand, we will strengthen the partnership with our distribution partners to broaden our distribution network, covering more points-of-sales such as tobacco and baijiu stores. On the other hand, we seek to attract and engage prospective consumers and forge lasting connections with loyal existing consumers through our offline featured stores. We plan to continue to mobilize our on-the-ground sales team to support our sales networks and engage our end consumers. Furthermore, we aim to enhance our sales channels by increasing investment to digitalization across our entire supply chain to achieve efficient sales and distribution management.

Solicit and retain quality talents

We will continue to attract, train and motivate talent and we endeavor to achieve business success alongside with our employees' career advancement. In particular, we plan to recruit and foster talent specialized in state-of-the-art baijiu-making techniques and product innovation to develop new baijiu products that meet consumers' evolving preferences and tastes. In addition, we intend to continuously foster our corporate culture, create pleasant working environments, and improve our talent training system to help employees achieve self-worth and accomplishment.

Commit to sustainable development

Most of the raw materials for our baijiu are often sourced and made locally which deeply connects us to the communities where we live and work. The production of superior baijiu products is dependent on a healthy environment and thriving communities. We have unwavering commitment to sustainable development as we strive to build resilience with a sense of responsibility and a long-term perspective. See " — Environmental, Social and Governance — Environmental Sustainability" for details.

OUR BRANDS AND PRODUCTS

We operate four major baijiu brands in China, including our flagship brand *Zhen Jiu*, a thriving brand *Li Du*, as well as two regional leading brands *Xiang Jiao* and *Kai Kou Xiao*. Through these brands, we build on and promote traditional Chinese baijiu culture by developing a broad selection of fragrant, mellow baijiu products with diverse aroma profiles.

We position our four baijiu brands by targeting different consumer preferences and geographic areas in China. For *Zhen Jiu*, we primarily target sauce aroma baijiu lovers across different locations who crave for premium, quality sauce aroma baijiu products. For *Li Du*, we offer premium and above mixed aroma baijiu products primarily in Jiangxi, and are expanding our market coverage across China. *Xiang Jiao* and *Kai Kou Xiao* are two regional leading brands in the Hunan market with diversified aroma profiles and broad product offerings at different price points.

The following table sets out a breakdown of our revenue and as a percentage of total revenue by baijiu brand for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Zhen Jiu	1,345,546	56.1	3,487,573	68.4	3,822,696	65.3
Li Du	359,225	15.0	649,954	12.7	886,850	15.1
Xiang Jiao	394,879	16.5	605,569	11.9	712,791	12.2
Kai Kou Xiao	172,033	7.1	256,579	5.0	338,675	5.8
Others*	127,232	5.3	101,918	2.0	94,905	1.6
Total	**2,398,915**	**100.0**	**5,101,593**	**100.0**	**5,855,917**	**100.0**

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

The following table sets out a breakdown of our revenue and as a percentage of total revenue by aroma type for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Sauce aroma	1,430,262	59.6	3,740,225	73.3	4,182,280	71.4
Strong aroma	417,285	17.4	485,341	9.5	552,066	9.4
Mixed aroma	551,368	23.0	876,027	17.2	1,121,571	19.2
Total	**2,398,915**	**100.0**	**5,101,593**	**100.0**	**5,855,917**	**100.0**

Zhen Jiu

We named our flagship baijiu brand *Zhen Jiu*, or "Treasure of Liquor" in English, in 1986, inspired by the praise from a former vice premier of China who tasted our baijiu. The praise was made after the key national technical development project to produce high-quality sauce aroma baijiu in Guizhou's Zunyi region succeeded after years of tireless efforts. Rooted in the traditional Chinese baijiu culture, *Zhen Jiu* has grown to become the fifth largest sauce aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five sauce aroma baijiu brands in China in the same year, according to Frost & Sullivan. One of *Zhen Jiu*'s trademarks was recognized as China Well-known Trademark in 2011.

At *Zhen Jiu*, we focus on making premium sauce aroma baijiu products. Sauce aroma baijiu is a fragrant distilled sorghum liquor named for a hint of umami flavors commonly found in the flavor of soy sauce — it is a mellow liquor, with a layered taste of herbs and fermented beans, and a long aftertaste. While experiencing rising popularity among consumers, sauce aroma baijiu, especially that of top quality, has been in scarcity within China's baijiu market due to its uniqueness, and high quality requirements for baijiu-making process and ecological environments. To date, we have successfully launched various sauce aroma baijiu products blended with different recipes from mid-range product Lao Zhen Jiu (老珍酒) to premium product Zhen 15 (珍十五) Series, and further to deluxe product Zhen 30 (珍三十) Series that appeal to consumers with different preferences across China.

Leveraging the broad recognition of our popular products, we developed product series to better familiarize consumers with the high quality and distinctive features of our products and to increase market acceptance. Taste, texture and the corresponding sales channels of different product series under the same brand vary. Within the same product series, we have multiple versions catering to the consumers needs with the standard version as the core offering. Different versions have slightly different flavors, with varied packaging and price points tailored to different sales channels and geographic areas. For example, Zhen 15 Series includes, among others, Zhen 15 standard version (珍十五標準版), Zhen 15 Black & Gold version (珍十五黑金版) and Zhen 15 Collector's version (珍十五收藏版). We also from time to time roll out stylish *Zhen Jiu* product series for special occasions or promotion events, featuring popular topics such as the Chinese zodiac and other cultural and creative ideas to meet marketing needs. Our "Zhen Jiu — tiger-shaped bottle with gold-inlay inscription" (珍酒錯金銘文虎) launched in 2022, for example, received wide market recognition and won the first place in the 2022 Most Collectible Year of the Tiger Chinese Zodiac Wine Contest launched by Sina Finance and Microbrew. We launched certain customized *Zhen Jiu* product versions tailored at the request of selected distributors of strategic importance. The customized versions are designed and produced based on distributors' special requirements for the taste, quality and packaging of baijiu products and can only be sold exclusively by such distributors. For the purpose of strengthening our brand identity and better managing different sales channels, we have gradually reduced the launch of customized product versions since 2022. Set out below are details of our representative *Zhen Jiu* products:

Product	Year of Product Launch	Sample Product Picture	Aroma Profile	ABV	Recommended Retail Price Per Volume of 500ml(1)
Zhen 30 (珍三十) Series	2012		Sauce Aroma	53%	RMB1,888-1,999

Product	Year of Product Launch	Sample Product Picture	Aroma Profile	ABV	Recommended Retail Price Per Volume of 500ml[1]
Zhen 15 (珍十五) Series	2016		Sauce Aroma	53%	RMB799-999
Lao Zhen Jiu (老珍酒) and Zhen 5 (珍五)	2016 (Lao Zhen Jiu)/2014 (Zhen 5)		Sauce Aroma	53%	RMB168-298
Stylish *Zhen Jiu* Series	2021		Sauce Aroma	53%	RMB1,667

Note:

(1) The price ranges listed are for representative product versions within the product series.

We take pride in the refined and delicate taste with lingering aftertaste, and the full-bodied texture of our *Zhen Jiu* products. During the Track Record Period, we had received a number of awards and recognitions for our representative *Zhen Jiu* products. For example, Zhen 30 (珍三十) Series and Zhen 15 (珍十五) Series, our representative premium sauce aroma baijiu products, were awarded Double Gold Medal and Gold Medal at San Francisco World Spirits Competition in 2022, respectively.

In 2020, 2021 and 2022, we generated revenue of RMB1,345.5 million, RMB3,487.6 million and RMB3,822.7 million from *Zhen Jiu* products, respectively, representing 56.1%, 68.4% and 65.3% of our total revenue during the same periods.

Li Du

Li Du is a thriving brand focused on producing and marketing premium and above mixed aroma baijiu products to consumers. Setting out in 1955, the brand *Li Du* was established to honor its origin from Lidu, Jiangxi, an ancient town in China that is steeped in its long-standing tradition of making baijiu. In 2002, an ancient baijiu historical site was discovered during the renovation of our distillery in Lidu, Jiangxi, which traced the history of Lidu liquor back to Yuan Dynasty. This ancient baijiu distillery site was further accredited as one of Major National Historical and Cultural Sites Protected in 2006.

At *Li Du*, we primarily offer a selected portfolio of premium and above mixed aroma baijiu products. Our *Li Du* products feature a strong fragrance, rice-flavor beginning taste, light mid-palate and sauce-flavor aftertaste. The unique, layered tastes of our *Li Du* products are partially shaped by the distinct group of micro-organisms in the fermentation environment, gradually formed in the long history of baijiu making in the town of Lidu. We believe our long-established traditional techniques for making *Li Du* baijiu, which were awarded as Intangible Cultural Heritage of Jiangxi, distinguish ourselves from other baijiu brands.

Set out below are details of our representative *Li Du* products:

Product	Year of Product Launch	Sample Product Picture	Aroma Profile	ABV	Recommended Retail Price Per Volume of 500ml
Li Du Sorghum 1308 (李渡高粱1308)	2021		Mixed Aroma	52%	RMB2,308
Li Du Sorghum 1955 (李渡高粱1955)	2015		Mixed Aroma	52%	RMB1,160
Li Du Sorghum 1975 (李渡高粱1975)	2017		Mixed Aroma	50.8%	RMB690

We have achieved initial market acceptance for our *Li Du* products, as evidenced by a number of awards and recognitions. Our popular products Li Du Sorghum 1955 (李渡高粱1955) and Li Du Sorghum 1308 (李渡高粱1308) won the Grand Gold Medals from the Spirits Selection by Concours Mondial de Bruxelles in 2015 and 2019, respectively. In addition, Li Du Sorghum 1955 (李渡高粱1955) is widely recognized as one of the most premium package-free baijiu products in China, according to Frost & Sullivan.

In 2020, 2021 and 2022, we generated revenue of RMB359.2 million, RMB650.0 million and RMB886.9 million from *Li Du*, respectively, representing 15.0%, 12.7% and 15.1% of our total revenue during the same periods. While we derived a majority of our revenue for *Li Du* from Jiangxi during the Track Record Period, we have continued to broaden our geographic reach in China, driving *Li Du*'s long-term growth.

Xiang Jiao

Synonymous with the rich cultural heritage of baijiu-making in Hunan, *Xiang Jiao* is a premium baijiu brand with substantial local presence and strong brand awareness in Hunan, 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 high-quality baijiu products with diverse aroma profiles, covering strong aroma, sauce aroma and mixed aroma. This strategic product portfolio has allowed us to cover a wider range of consumer preferences and markets. Set out below are details of our representative *Xiang Jiao* products :

Product	Year of Product Launch	Sample Product Picture	Aroma Profile	ABV	Recommended Retail Price Per Volume of 500ml
Xiang Jiao Long Jiang (湘窖·龍匠) Series	2019		Sauce Aroma	53%	RMB699 – 1,699[(1)]
Xiang Jiao Yao Qing (湘窖·要情酒)	2012		Mixed Aroma	50.8%	RMB1,699
Xiang Jiao Red Diamond (湘窖酒·紅鑽)	2012		Mixed Aroma	50.8%	RMB868
Xiang Jiao Crystal Diamond (湘窖酒·水晶鑽)	2003		Strong Aroma	52%	RMB599

Note:

(1) The price range listed is for representative product versions within the product series.

During the Track Record Period, *Xiang Jiao* received a variety of awards and recognitions for its quality and tastes. In 2018, Xiang Jiao Red Diamond (湘窖酒·紅鑽) was awarded the Grand Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles.

In 2020, 2021 and 2022, we generated revenue of RMB394.9 million, RMB605.6 million and RMB712.8 million from *Xiang Jiao*, respectively, representing 16.5%, 11.9% and 12.2% of our total revenue during the same periods. During the Track Record Period, substantially all of our revenue for *Xiang Jiao* was generated from Hunan.

Kai Kou Xiao

Recognized as 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 ourselves *Kai Kou Xiao*, or "A Big Smile" in English, because we aspire to spread the joy of life through our baijiu products. Having built a brand name synonymous with a taste of bliss, we strategically focus on promoting and marketing our *Kai Kou Xiao* products in the local market in Hunan, in which we have achieved substantial market acceptance.

Under the brand of *Kai Kou Xiao*, we mainly offer strong aroma and sauce aroma baijiu products which have achieved substantial mass market acceptance. Set out below are details of our representative *Kai Kou Xiao* products:

Product	Year of Product Launch	Sample Product Picture	Aroma Profile	ABV	Recommended Retail Price Per Volume of 500ml
Kai Kou Xiao 15 (開口笑酒15)	2007		Strong Aroma	50.8%	RMB358
Kai Kou Xiao 9 (開口笑酒9)	2007		Strong Aroma	50.8%	RMB198
Kai Kou Xiao Fu Jiang 20 (開口笑福醬酒·20)	2020		Sauce Aroma	53%	RMB699

In 2020, 2021 and 2022, we generated revenue of RMB172.0 million, RMB256.6 million and RMB338.7 million from *Kai Kou Xiao*, respectively, representing 7.1%, 5.0% and 5.8% of our total revenue during the same periods. During the Track Record Period, substantially all of our revenue for *Kai Kou Xiao* was generated from Hunan.

Other Brands and Products

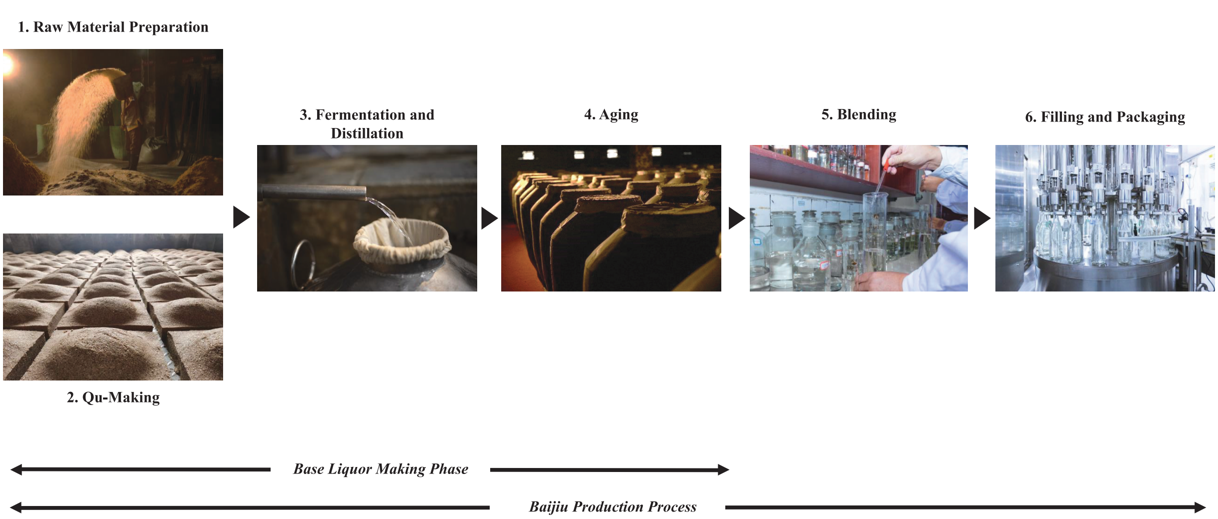
During the Track Record Period, we also produced, marketed and sold baijiu products under other brands, which are not our strategical focus of development. In 2020, 2021 and 2022, we generated revenue of RMB127.2 million, RMB101.9 million and RMB94.9 million from other brands, respectively, representing 5.3%, 2.0% and 1.6% of our total revenue during the same periods. For example, we operate another baijiu brand *Shao Yang*, which is consumed and loved by local communities in Hunan in their everyday life. With a selection of quality yet affordable strong aroma baijiu products, *Shao Yang* is appealing to the mass market. The recommended retail prices of our main *Shao Yang* products are below RMB100.

SEASONALITY

Our business is subject to seasonal fluctuations. We typically experience higher product sales during holidays and festival seasons in a year, most notably around the Spring Festival and the Mid-Autumn Festival. See also "Risk Factors — Risks Relating to Our Business and Industry — We may be subject to seasonal fluctuations in consumer demand."

PRODUCTION PROCESS

Although baijiu is a fermented beverage like beer and wine, baijiu's brewing process is much more complex. Baijiu is made mainly from a mixture of grains such as sorghum, wheat, glutinous rice, water and many other ingredients such as qu that can contain hundreds of distinct yeasts, mods, and microorganisms, also play their roles in the brewing process. This exact, delicate collaboration generates a synergistic effect that enhances the flavor and aroma of baijiu. Rather than the flavor of the raw materials, the complex process of baijiu making, complemented by superb terroir, influences flavor and aroma. Baijiu production technique is a precious national heritage of China, and the baijiu products nowadays are the result of gradual technical advancement and changing consumer preferences. While the raw materials and specific production procedures may vary depending mainly on the particular aroma type of the baijiu being produced, the production process may nonetheless be roughly divided into six pivotal steps: raw material preparation, qu-making, fermentation and distillation, aging, blending as well as filling and packaging. Base liquor is made in the first four steps following traditional procedures and techniques. The base liquor production process varies among different aroma profiles.



Raw Material Preparation

Baijiu is typically made from grains. The aroma that the finished baijiu carries will be influenced by the types of grains used. Sauce aroma baijiu like our *Zhen Jiu* products utilizes heavier, sturdier grains with high starch content, specifically the locally grown red tassel sorghum. Our mixed aroma *Li Du* products utilize a mixture of rice and sorghum to derive its unique, layered tastes. To make strong aroma baijiu including some of our *Xiang Jiao* and *Kai Kou Xiao* products, a mixture of grains including rice, wheat, glutinous rice and sorghum is used to derive the strong fragrance.

Grains are ground in order to release starch with the purpose of increasing the steaming and microbial correlation area and obtaining a desirable cohesion of mass. This step plays an important role in the quality of baijiu, since soft grinding leads to ineffective saccharification and harsh grinding influences the flavor of baijiu.

Qu-making

Serving as the fermentation initializer, qu is the most important element in making baijiu. Different types of qu will make disparate tasting variations of baijiu. We typically use big qu which is constructed from wheat to produce our products. Once these core raw materials are successfully combined, they are mixed with water and a paste is formed. When ready, they will be shaped into bricks, which are then stacked in a warm, enclosed room for 40-45 days to allow sufficient time for big qu to ferment. Afterwards, they will continue to be stored for four to six months before being used in the next steps.

Each pressed brick of qu can contain hundreds of distinct yeasts, mods, and microorganisms, all naturally cultivated from the air. The role of qu is to saccharify the starches in the grains so that it ferments carbohydrates into sugars, and then sugars into alcohol. Added to the mash of grains and water, qu supports a quick conversion of starch into alcohol, allowing the final liquor to reach high levels of alcohol by volume.

Qu can create subtle differences in taste and recipes are the most carefully guarded trade secrets in China's baijiu industry. We inherit traditional qu-making techniques for most of our sauce aroma baijiu products. In particular, high temperature exceeding 60°C is used in our qu-making process, allowing thermophilic microorganisms to grow and thrive, which eventually leads to the refined and delicate taste with lingering aftertaste and full-bodied texture of our sauce aroma baijiu.

Fermentation and Distillation

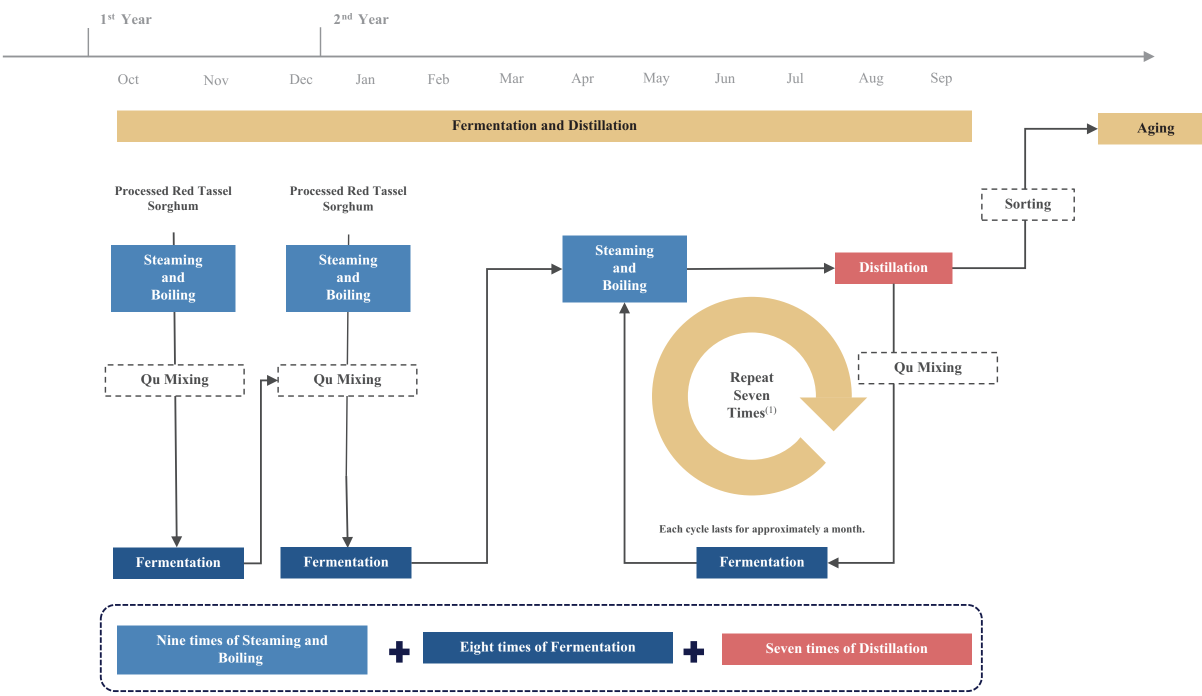
Upon completion of the qu-making process, the bricks of qu will be crushed and ground down to powder. The powdered qu is then added to the processed grains, along with clear water. The grains, qu and water will then mix transforming the starch in the grains into sugar. Once this process is complete, fermentation of baijiu then begins.

Baijiu fermentation varies between different distilleries and aroma types. For example, with respect to our mixed aroma *Li Du* baijiu, we place the grain mixture, qu and water in fermentation pits. The group of microorganisms helps to create a unique flavor of our *Li Du* baijiu. We use the traditional back-slopping technique for a better control of the fermentation process. By adding the fermentation residue during the beginning of alcoholic fermentation, the back-slopping technique allows optimal composition of the microbial communities, which in turn increases the success of natural fermentation.

The purpose of distillation is to capture the fermented alcohol from the mixture of grains, qu and water. These mixtures are heated by steam, and the vapors that arise are captured and bottled by a distillate. After these vapors are captured, they are left to condense into liquid.

Special fermentation and distillation process for high-quality sauce aroma baijiu

The making of base liquor for quality sauce aroma products under *Zhen Jiu* brand requires a complex and time-consuming fermentation and distillation process. As illustrated in the following diagram, the entire fermentation and distillation process usually commences in October and takes approximately 11 months to finish. During the entire process, the grains are steamed and cooked nine times, between which the fermentation process are repeated eight times, followed by seven times of distillation. Particularly, in contrast to strong aroma and mixed aroma baijiu, sauce aroma baijiu is not diluted. This complex process strengthens the sauce flavor and improves the quality of the distilled liquor.



Note:
(1) The last cycle ends at the stage of distillation.

Aging

The freshly-made distillates are rated and sorted by experienced technicians according to their round of distillation, type, alcoholic strength, and physical and chemical characteristics. Distillates with similar characteristics are grouped together and stored in jars. The jars are then put into barns for preservation and labeled with information such as the year of production, date, barn number, jar number, workshop, responsible staff members, ratings, round, characteristics, taste and quantity. We adopt a digitalized base liquor management system that leverages the digital simulation technologies to improve base liquor management capabilities. See " — Digital Infrastructure." The aging process will gradually affect the sensory properties and the composition of flavor compounds of the base liquor. The base liquor in the jars is then left to age.

Blending

Once the distilled liquor stabilizes through storage, it becomes base liquor ready to be blended into finished products. Base liquor of complementary aroma and class is used for blending. Our blending experts carry out multiple rounds of small-scale blending in accordance with our production standards and recipes to evaluate and determine the ideal combination. Blending involves taking basic distillates of different types, alcoholic strengths, and duration of storage, taken from various batches of production, based on our recipe. Large-scale blending is then carried out with the same proportional parameters as small-scale blending. In the process, in addition to laboratory analysis, sensory evaluation is used to select the best combination and define the premium profile and introduce a sensory definition in quality control. When this has been completed, the blended liquor will be stored for a certain period of time before filling and packaging. Specifically, the blending of sauce aroma baijiu requires longer aging and storage time as well as a larger number of basic distillates and more rounds of blending as compared to the blending of strong aroma and mixed aroma baijiu.

Blending base liquor of various characteristics at different formulas creates a variety of flavors in finished baijiu products, and therefore the recipes for baijiu blending are usually the core know-how of distilleries. The blending process is a combination of accumulated know-how, traditional techniques, and the experience of seasoned blending technicians. We dedicate a product development team consisting of industry veterans to developing baijiu recipes that honor the uniqueness and prestige of our baijiu products and accumulate know-how to constantly improve the quality of our products. For details on our product development efforts, see " — Product Development." In addition, blending techniques and know-how are of paramount importance in ensuring a consistent level of baijiu quality and flavor. Being fully aware of the significance of blending techniques and baijiu recipes to our production process and the quality of our baijiu products, we have developed and implemented stringent policies to safeguard against leakage of our blending techniques and know-how. We only allow our core technical personnel to have access to our blending techniques and know-how. We entered into confidentiality and non-competition agreement with our core technical personnel, prohibiting them from disclosing or making use of our trade secrets and other confidential information, including know-how, at any time during or subsequent to their performance of services for our company. In the blending process, we assign technical personnel to different groups with different functions. Each group is responsible for its own part of production and is required not to communicate with members of other groups regarding the production techniques. We also use code names for sensitive information involved in the production process, for example, the baijiu samples, and only designated personnel know how to interpret the code names.

Filling and Packaging

The filling and packaging process includes such procedures as blend intake, filling, marking and so on. The bottles used are expected to be flawless and to meet the requirements for uniform thickness and size. The liquor blend to be put into the bottles should first undergo quality inspection to ensure that it is pure, free from turbidity and suspended solids, and then checked against the specifications required for each specific variety and batch, including with regard to the net weight of liquor. A specially designed tag coupled with an anti-counterfeiting label is then attached to the bottle symmetrically and smoothly, with information including our brand name, date of production, batch number, and serial number of the bottle and production venue codes. Selected premium and above products are sealed with anti-counterfeiting caps embedded with RFID chip to track and trace individual products through the supply chain and provide a higher level of anti-counterfeiting protection. The bottles of liquor are then put into cartons or boxes, ensuring that they are packaged the right way up, with the appropriate accessories for the stipulated variety and quantity. The ends of the cartons are then neatly sealed with tapes and, finally, straps are looped around the cartons for transportation. We adopt QR code technology to the packaging of virtually all of our products to improve whole process traceability management from product manufacturing, warehousing, logistics to market circulation.

PRODUCTION FACILITIES

We produce the baijiu products we sell in our production facilities. As of the Latest Practicable Date, we had six production facilities in operation in China. We strategically locate our production facilities in geographic regions suitable for baijiu making, such as Zunyi, Guizhou, Lidu, Jiangxi, and Shaoyang, Hunan. We believe that the mild, humid climate, favorable geographic conditions and abundant natural resources, such as sufficient grains and plentiful fresh water within these geographic regions have enabled us to secure quality taste and texture of our baijiu.

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 processing plants are equipped with machineries, fermentation pits, barns, as well as bottling and packaging lines and warehouses. Consistent with the industry norm, the capacity of base liquor production is a key factor of our production capacity especially for our premium sauce aroma baijiu. We also procure some base liquor for the blending from collaborated distilleries. For details of base liquor produced in our own plants and in the designated plants of selected third-party, see " — Production Process." Base liquor needs to be blended and packaged in our blending plants, and filling and packaging plants before becoming baijiu products.

The following table sets out certain details of our production facilities in operation as of the Latest Practicable Date.

Production Facility	Geographic Location	Major Brand(s) Served	Acreage(m^2)	Designed Production Capacity of Base Liquor (tons per year)
Zhen Jiu (Shi Zi Pu) (十字鋪)	Zunyi, Guizhou	*Zhen Jiu*	315,422	15,000
Zhen Jiu (Zhao Jia Gou) (趙家溝)	Zunyi, Guizhou	*Zhen Jiu*	740,894	19,000
Zhen Jiu (Moutai Town Shuang Long) (茅台鎮雙龍)	Zunyi, Guizhou	*Zhen Jiu*	125,501	1,000
Li Du I	Lidu, Jiangxi	*Li Du*	14,975	400
Li Du II	Lidu, Jiangxi	*Li Du*	58,098	1,600
Xiang Jiao (Jiang Bei) (江北)	Shaoyang, Hunan	*Xiang Jiao* and *Kai Kou Xiao*	793,136	4,800

During the Track Record Period, we gradually expanded our production capacity according to our expansion strategy and our forecast of market demand. In 2020, the increase in our production capacity was 2,600 tons for *Zhen Jiu* and *Xiang Jiao*. We continued to expand our production capacity by 14,700 tons in 2021 for *Zhen Jiu*, *Li Du* and *Xiang Jiao*. In 2022, the growth in our production capacity amounted to 14,500 tons for *Zhen Jiu* and *Li Du*.

Our production facilities are equipped with advanced facilities and equipment to streamline and optimize the entire production process. We have continued to digitalize and intelligentize our baijiu production at our production facilities, from qu making to distillation, and from liquor blending to product packaging, which allows us to improve our operational efficiency. For example, we installed automated production lines at a number of our production facilities, which enable the adding of water to ground raw materials, cooling the steamed raw material for mixing with qu, loading high-temperature materials into fermentation pits, and distilling liquor, all in an automatic manner. In addition, we also benefit from the precision and accuracy that our automated production line enables, which allows us to ensure the consistency of our product quality and tastes. Our *Zhen Jiu* (Shi Zi Pu) (十字鋪), *Li Du* II and *Xiang Jiao* (Jiang Bei) (江北) production facilities also house our laboratories, where we carry out quality control tests and baijiu product development for each brand.

We have a stringent quality control system in place, enabling us to effectively manage product quality and safety risks throughout the baijiu production process. For further details of our quality control system over baijiu production, see " — Quality Control."

Base Liquor Production

In 2020, 2021 and 2022, we produced 8,959 tons, 11,058 tons and 25,694 tons of base liquor, respectively. The following table sets forth the designed production capacity, actual output, both in terms of tons of base liquor, and utilization rate by brand for the relevant periods.

	For the year ended December 31,								
	2020			2021			2022		
	Designed capacity(1)	Actual output(2)	Utilization rate(3)	Designed capacity(1)	Actual output(2)	Utilization rate(3)	Designed capacity(1)	Actual output(2)	Utilization rate(3)
	(tons, except percentages)								
Zhen Jiu(4)	4,800	4,737	98.7%	7,000	7,222	103.2%(5)	21,000	20,857	99.3%
Li Du	1,200	1,049	87.4%	1,500	1,292	86.1%	2,000	1,733	86.7%
Xiang Jiao and *Kai Kou Xiao*(6)	4,400	3,173	72.1%	4,800	2,544	53.0%	4,800	3,104	64.7%
Total	10,400	8,959	86.1%	13,300	11,058	83.1%	27,800	25,694	92.4%

Notes:

(1) During a given period, designed capacity is calculated as the number of fermentation and distillation plants multiplied by the estimated production capacity for each of the fermentation and distillation plants, which is estimated based on the production capacity designed for the relevant fermentation and distillation plant and the historical output of fermentation and distillation plant with similar size, in such period.

(2) During a given period, actual output is calculated by converting the amount of produced base liquor with various ABV to the amount of base liquor with standard ABV in consistency with the industry norm.

(3) During a given period, utilization rate is calculated as the actual output for the relevant period divided by the designed capacity for such period.

(4) The annual production cycle of *Zhen Jiu* is typically from October to September of the following year with the majority output generated in the following year. As a result, the designed capacity for a given period refers to the designed capacity for the production cycle that ends within such period, namely, the designed capacity when such production cycle commences in October of the previous year.

(5) The actual output slightly exceeded the designed capacity for *Zhen Jiu* in 2021, primarily because there was a moderate amount of rainfall and relatively more sunny days in Guizhou's Zunyi region throughout the year of 2021, which was suitable for the microorganism growth in the fermentation process and provided preferable production conditions for baijiu-making.

(6) During the Track Record Period, we used the same production facilities and equipment to produce base liquor for *Xiang Jiao*, *Kai Kou Xiao* and certain other baijiu brands under Hunan Xiangjiao and as a result, the designed capacity, actual output and utilization rate with respect to base liquor for these brands are inseparable.

We believe that we in general sufficiently utilize our production facilities for *Zhen Jiu* and need additional production facilities to capture future growth opportunities.

Sizable production capacity of sauce aroma baijiu is challenging to establish due to the scarcity of premium baijiu distillery regions, the intricate processes involved in making sauce aroma baijiu, and the lengthy construction process. Leveraging our proven track record of supporting local economy and promoting sustainable development, we are progressively securing superb terroir suitable for baijiu production and expanding our production facilities to capture the growth potential in the large and growing baijiu market and strengthen our core competitiveness. Our sizable and increasing sauce aroma base liquor production capacity enables us to further enrich our product offerings and boost our long-term growth, especially at the higher price range.

Collaborated Production of Base Liquor

To expand our output in meeting the increasing market demand, we also collaborated with selected third-party distilleries to produce base liquor for blending of sauce aroma products for us during the Track Record Period. During the Track Record Period, we worked with six collaborated distilleries and we have worked with most of them for more than four years and had established stable relationships. We adopt the co-production model for base liquor production in order to secure the priority supply of base liquor production capacity from the collaborated distilleries, support rapid growth of orders and revenue while increasing our market share, have a better control on the quality and taste of base liquor, and better manage our capital expenditure.

We implement strict selection criteria for the collaborated distilleries. Before engaging a new collaborated distillery, we pre-screen candidates based on, among others, their certificates and qualifications, previous operational experience of base liquor production, production capacity, product quality, food safety and hygiene conditions, reputation and credit. Particularly, the ecological environment of the distillery is one of the most essential factors we consider during the selection process, since the quality of base liquor is closely related to the local ecological environment of the distillery, and the production process has strict requirements and natural dependence on water quality, soil, air, climate and biodiversity. In addition, the stability of the distillery's capacity is also a key criterion we focus on to ensure continuous production and long-term cooperation. We inspect product samples of those candidates who pass our pre-screening. Depending on the pre-screening and sample inspection results, we conduct on-site inspections to ensure that they and their products comply with our quality standards. We then evaluate each of the candidates and we collaborate with distilleries of higher rating.

We usually enter into base liquor collaboration agreements with the selected collaborated distilleries, typically for a five-year period. Pursuant to these agreements, the collaborated distilleries are contractually required to produce base liquor strictly in accordance with our specifications and requirements, and other national or industry standards. We designate certain plants of the collaborated distilleries for the priority supply of base liquor to us and we are entitled to purchase all base liquor produced in such plants. We generally communicate our planned procurement volume with our collaborated distilleries in advance. There is no minimum purchase commitment for us pursuant to the agreements with collaborated distilleries. During the Track Record Period, we secured 17,000 tons of annual base liquor production capacity for the production of sauce aroma baijiu products. Historically, a majority of such production capacity was utilized for the production of base liquor for our *Zhen Jiu* brand and a small portion was utilized for our *Xiang Jiao* brand. Specifically, we take the following measures to ensure the quality of collaborated production: (i) conducting pre-job training for production personnel regarding production processes, quality identification of raw and auxiliary materials, food safety, etc.; (ii) assigning experienced technical personnel for on-site supervision and management over the critical procedures in qu-making, fermentation and distillation in the designated plants; and (iii) reviewing inspection reports before each shipment of base liquor. If the base liquor delivered by the collaborated distilleries fails to meet the standards and requirements set forth in our collaboration agreements, we are entitled to reject such products. Once the applicable standards and requirements are met, we blend base liquor purchased under the collaboration agreements together with our own base liquor to produce the final baijiu products based on our proprietary recipes. We do not share our baijiu recipes with any of our collaborated distilleries. For more details, see " — Production Process — Blending."

Set out below is a summary of our standard base liquor collaboration agreement that we enter into with the collaborated distilleries:

- *Terms and termination.* The base liquor collaboration agreement typically has a term of five years with renewal options, subject to early termination when one party is unable to continue to perform due to force majeure factors, bankruptcy, closure of business or when the parties agree to terminate.

- *Priority supply.* We designate certain plants of the collaborated distilleries for the priority supply of base liquor to us. During the term of the agreement, we have priority to purchase all of base liquor produced in those designated plants since the commencement of the cooperation which cannot be sold to other purchasers without our permission. The collaborated distilleries are required to arrange for separate containers for the storage of base liquor of which we are entitled to priority supply until shipment is completed. Moreover, the collaborated distilleries are required to provide us with complete operating data relating to the production of base liquor in these designated plants, including production volume, labor costs, utility consumption, raw material cost, etc.

- *Production.* The collaborated distilleries are responsible for purchasing all raw materials and auxiliary materials required for base liquor production, providing plant and equipment, and hiring and managing production personnel.

- *Supervision and quality control.* We are entitled to assign three to five technical personnel to supervise and manage the production process at the designated plants, and the collaborated distilleries shall cooperate with their inspections and instructions. Collaborated distilleries are responsible for maintaining all required qualifications and licenses, and meeting all requirements for product quality, production safety and environmental protection, etc. We are otherwise entitled to take appropriate measures to rectify any misconduct.

- *Brand and intellectual property.* The collaborated distilleries are not allowed to advertise or sell any product in our names or brands, and shall not infringe our intellectual property rights.

- *Payment settlement.* During the term of the agreement, the settlement price is determined between us and the collaborated distilleries according to the quantity, quality and grade of the base liquor produced. The specific delivery terms are subject to the purchase order confirmed by both parties.

- *Indemnification.* The collaborated distilleries shall be responsible and indemnify us for any damages relating to the defective products.

The collaborated distilleries provided us with approximately 7,404 tons, 20,546 tons and 7,817 tons of sauce aroma base liquor in 2020, 2021 and 2022, respectively. The significant increase in our procurement of sauce aroma base liquor from collaborated distilleries in 2021 was because we increased procurement of base liquor to support our expansion of production capacity in light of the increasing market demand and the increase in our sales volume. We were able to procure approximately 20,546 tons of base liquor in 2021 from the collaborated distilleries because (i) we have the priority over other customers to procure 17,000 tons of base liquor annually from the collaborated distilleries, and (ii) for the portion exceeding the secured 17,000 tons of production capacity, the collaborated distilleries had sufficient base liquor to supply us due to their storage of base liquor produced and not sold in previous years. During the Track Record Period and up to the Latest Practicable Date, we have no material disputes or litigations with our collaborated distilleries and we have not experienced any short of supply in base liquor. As we continue to build additional distilleries to enlarge our production capacity, we expect to reduce our base liquor purchases from collaborated distilleries gradually. During the Track Record Period, none of our Directors, their respective associates, or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of the collaborated distilleries.

Planned Production Capacity Expansion

During the Track Record Period, we gradually expanded our production capacity according to our expansion strategy and our forecast of market demand. We intend to further increase our overall production capacity progressively to satisfy market demand by expanding our existing production facilities and constructing new production facilities. As of the Latest Practicable Date, we had commenced the expansion of three existing production facilities, namely *Zhen Jiu* (Zhao Jia Gou) (趙家溝), *Zhen Jiu* (Mao Tai Zhen Shuang Long) (茅台鎮雙龍) and *Xiang Jiao* (Jiang Bei) (江北), as well as the construction of one new production facility, namely *Li Du* (Zheng Jia Shan) (鄭家山). These planned projects are expected to increase our annual production capacity of base liquor by 26,000 tons by 2024, among which 16,600 tons are for sauce aroma base liquor.

The following table summarizes details of our planned key production facilities.

Production Facility	Geographic Location	Major Brand(s) Served	Expected Time for Commencement of Commercial Production	Designed Production Capacity of Base Liquor (tons per year)	Expected Capital Expenditure (RMB in millions)	Status as of the Latest Practicable Date
Zhen Jiu (Zhao Jia Gou) (趙家溝) (Expansion)	Zunyi, Guizhou	*Zhen Jiu*	The third quarter of 2023 to the third quarter of 2024	6,000	1,050	under construction
Zhen Jiu (Mao Tai Zhen Shuang Long) (茅台鎮雙龍) (Expansion)	Zunyi, Guizhou	*Zhen Jiu*	The third quarter of 2023 to the third quarter of 2024	10,600	1,638	under construction
Li Du (Zheng Jia Shan) (鄭家山)	Lidu, Jiangxi	*Li Du*	The second quarter of 2023 to the fourth quarter of 2023	5,000	340	under construction
Xiang Jiao (Jiang Bei) (江北) (Expansion)	Shaoyang, Hunan	*Xiang Jiao* and *Kai Kou Xiao*	The second quarter of 2023	4,400	162	under construction

We expect that the capacity expansion of each of the planned key production facilities above will be funded primarily by the net proceeds from the Global Offering and will also be funded by cash generated from our operations. See "Future Plans and Use of Proceeds — Use of Proceeds."

QUALITY CONTROL

We believe food safety and product quality are of paramount importance to our day-to-day business operations. As such, we are committed to heightened quality control as our business grows.

As of December 31, 2022, our quality control department comprised of 94 employees who have extensive work experience related to food science and quality inspection. Our quality control department oversees the implementation of our organization-wide quality control regime in all material respects of our business operations, and ensures that the quality of our baijiu products complies with the relevant PRC laws and regulations and our internal standards and requirements. In particular, we implement stringent food safety and quality control standards and measures throughout our business process, covering supply chain management, production, and logistics and warehousing. Our relentless efforts in food safety and product quality can be exemplified by a number of certifications we are accredited to by reputable certification institutions, including the Hazard Analysis Critical Control Point (HACCP) certification, ISO9001 certification, and Occupational Health and Safety Management System (OHSMS) certification. In addition, Jiangxi Lidu received the 4th Nanchang Mayor's Quality Award in 2022 for its outstanding performance in quality control.

Quality Control over Supply Chain Management

We regard selection and management of suppliers as an integral part of our quality control over supply chain management. We maintain a list of qualified suppliers, who have a proven record of reliable and stable supply, and we only partner with such qualified suppliers. We implement heightened criteria for selection of our suppliers and we periodically review and evaluate the performance of such suppliers. For details, see the section headed " — Supply Chain Management." In addition, we carry out batch-by-batch inspection and testing on the quality of raw materials delivered to us. Our suppliers are contractually required to comply with stringent quality standards for raw materials according to applicable laws and regulations as well as our specifications, thereby ensuring quality control and securing consistent flavor of our baijiu products.

Quality Control over Production

We have quality control personnel at each of our production facilities as well as at the headquarters, who are responsible for formulating and implementing our quality control measures during the production process. We require our employees to strictly adhere to the procedures and standards stipulated in the measures to make sure the flavor, quality and hygiene of our baijiu products meet our standards.

In accordance with our quality control measures, we conduct sample check for every batch of raw material we use, work-in-progress such as base liquor, and finished baijiu products. We frequently perform tests for hazardous chemicals including plasticizers, sweeteners and heavy metals in-house, and by reputable third-party institutions when necessary. Throughout the entire production process, our employees are required to strictly adhere to internal protocols and maintain record-keeping for material parameters such as the amount of raw materials used, temperatures of fermented materials and fermentation time. We carry out equipment maintenance and inspections regularly to avoid malfunctions or disruptions. Moreover, equipment and facilities cleaning and disinfection are conducted on a daily basis, minimizing contamination risks. Our production personnel are also required to obtain health certificates and comply with hygiene standards in the workshop by wearing uniforms, working caps and shoes. We have stringent control over access to our production facilities to ensure that our production process is not tampered.

Quality Control over Logistics and Warehousing

We have established collaborations with reputable logistics partners, which have reliable logistics capabilities to ensure fresh raw materials are delivered in time and to our required standards. We check the quantity and quality of raw materials upon delivery. Raw materials that fail to meet our quality standards will be returned at the cost of the suppliers. To ensure effective management of daily logistics, we maintain a comprehensive record of goods in transit such as name, responsible supplier, delivery date and shelf life.

We impose strict standards for the storage of different raw materials, work-in-progress and finished products. A dedicated in-house quality control team performs stringent quality checks regularly and monitors the storage and usage status in each warehouses. For example, as grains are sensitive to temperature and humidity, we usually install thermometers and hygrometers in warehouses to closely monitor the storage conditions. We constantly take steps to adjust the ventilation and moisture conditions in our warehouses to secure an optimum storage environment. To ensure the quality of base liquor with age statement, our quality control team keep product samples in accordance with internal protocols and conduct random checks on a monthly basis.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any investigation regarding any of our product quality or production facilities by any governmental authority and we had not encountered any material product safety incident. During the Track Record Period and up to the Latest Practicable Date, we did not have any material product recalls or returns, product liability claims, or customer complaints.

SALES AND DISTRIBUTION

We have developed a variety of sales channels, allowing us to constantly expand our consumer outreach. We primarily rely on a nationwide network of distributors to promote and sell our baijiu products, consisting of (i) distribution partners, who primarily purchase our baijiu products from us and subsequently distribute them to sub-distributors, which are mainly retailers, such as supermarkets, and tobacco and liquor stores, and end consumers, (ii) store partners, with whom we collaborate to develop featured stores, in which they not only sell our baijiu products, but also offer immersive, engaging consumer experience through versatile events, and (iii) retailers, primarily tobacco and liquor stores, restaurants and supermarkets, which sell our products directly to end consumers in their brick-and-mortar stores. Additionally, we also have dedicated direct sales force organized by brand and geographic areas who primarily serve end consumers and operate our online stores on various e-commerce platforms in China.

The following table sets forth a breakdown of our revenue and our gross profit margin by sales channels for the periods indicated.

	For the year ended December 31,								
	2020			2021			2022		
	Revenue	Percentage of Revenue	Gross Profit Margin	Revenue	Percentage of Revenue	Gross Profit Margin	Revenue	Percentage of Revenue	Gross Profit Margin
	RMB	%	%	RMB	%	%	RMB	%	%
	(in thousands, except for percentages)								
Distributors									
Distribution partners	1,672,982	69.7	46.4	3,265,533	64.0	45.9	3,467,059	59.2	50.0
Featured stores	346,526	14.5	64.6	1,087,623	21.3	68.5	1,283,890	21.9	64.3
Retailers	93,805	3.9	65.3	176,023	3.5	65.0	448,948	7.7	66.0
Subtotal	2,113,313	88.1	50.2	4,529,179	88.8	52.1	5,199,897	88.8	54.9
Direct sales	285,602	11.9	67.5	572,414	11.2	65.0	656,020	11.2	58.5
Total	**2,398,915**	**100.0**	**52.2**	**5,101,593**	**100.0**	**53.5**	**5,855,917**	**100.0**	**55.3**

During the Track Record Period, a majority of our revenue was generated from our distribution partners. In 2020, 2021 and 2022, revenue from distribution partners accounted for 69.7%, 64.0% and 59.2%, respectively, of our total revenue during the periods. The revenue contribution by such distribution partners decreased over time during the Track Record Period primarily because we continued to expand our other distribution and sales channels to drive our product sales and revenue growth.

Gross margin for our distribution partners remained relatively stable at 46.4% and 45.9% in 2020 and 2021, respectively, and subsequently increased to 50.0% in 2022, primarily because we sold more premium and above baijiu products with higher gross margins in 2022. Gross margin for our featured stores increased from 64.6% in 2020 to 68.5% in 2021, primarily due to shifting product mix towards premium and above baijiu products. The gross margin subsequently dropped to 64.3% in 2022 mainly because we provided more sales incentives to store partners amid the COVID-19 pandemic throughout 2022. Gross margin for retailers remained relatively stable during the Track Record Period. Our direct sales gross margin remained relatively stable at 67.5% in 2020 and 65.0% in 2021, and decreased to 58.5% in 2022, primarily because a growing number of mid-range and below baijiu products were sold through such sales channels.

The following table sets forth a breakdown of our revenue by geographical location for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Distributors						
Eastern China	557,003	23.2	1,193,141	23.4	1,459,315	24.9
Northern China	74,382	3.1	253,621	5.0	219,923	3.8
Northwestern China	30,585	1.3	88,589	1.7	103,562	1.8
Southern China	131,494	5.5	469,701	9.2	624,792	10.7
Southwestern China	365,490	15.2	735,302	14.4	744,483	12.7
Central China	938,821	39.1	1,727,269	33.9	1,964,951	33.6
Northeastern China	15,538	0.6	61,556	1.2	82,871	1.4
Subtotal	2,113,313	88.1	4,529,179	88.8	5,199,897	88.8
Direct sales	285,602	11.9	572,414	11.2	656,020	11.2
Total	2,398,915	100.0	5,101,593	100.0	5,855,917	100.0

We derived a significant portion of our revenue from Central China, Eastern China and Southwestern China during the Track Record Period. The revenue contribution of each geographical region as a percentage of our total revenue remained relatively stable during the Track Record Period. The revenue contribution from Southern China as a percentage of our total revenue increased from 5.5% in 2020 to 10.7% in 2022, primarily due to our sales expansion in Guangdong province. The revenue contribution from Central China as a percentage of our total revenue decreased from 39.1% in 2020 to 33.6% in 2022, primarily because our overall revenue growth outpaced the revenue growth of *Xiang Jiao* brand, a regional leading brand in Hunan market.

Distributors

The relationships between distributors and us are categorized as seller-buyer relationships — they purchase baijiu products from us and then resell the products to third-party retailers and/or end consumers, as the case may be. Historical sales generated by these distributors are generally recurring in nature except in cases where we discontinued our business relationships with certain distributors as detailed below. See also "Risk Factors — Risks Relating to Our Business and Industry — We rely on our distribution network to promote and sell baijiu products and generate a vast majority of revenue from our distributors."

To our best knowledge, as of the Latest Practicable Date, all of our distributors were Independent Third Parties and did not have any other relationship with us, except (i) where such relationships are created pursuant to our distribution agreements with them, and (ii) a *de minimis* number of our distributors or their respective beneficial owners, as the case may be, are our former employees. In 2020, 2021 and 2022, the number of distributors who were or were beneficially owned by our former employees totaled 7, 7 and 9, respectively. Revenue generated from such distributors accounted for approximately 0.6%, 0.4% and 0.3% of our total revenue in 2020, 2021 and 2022, respectively. These former employees reached out and became our distributors as they recognize our brands and baijiu products based on their work experience with us. We also believe the collaboration with such distributors is mutually beneficial for a number of reasons. First, as our former employees, such distributors have a proven track record of experience and competency, which make them trusted business partners. Second, with a deep understanding of our business, standards, customers and products, such distributors are capable of promoting and marketing our baijiu products effectively and efficiently, providing more tailored services to our customers, and contributing to our brand reputation among our customers. Leveraging our long-term trustworthy relationships with such former employees, we are able to expand our footprint in the relevant markets without incurring substantial costs associated with identifying and engaging new distributors. The sales to such distributors are arm's-length transactions. All commercial and operative provisions of our agreements with such distributors are entirely identical to those with any other independent distributors. We expect the relevant arrangements to continue on a limited scale.

Distribution Partners

Consistent with the industry norm, we primarily rely on our distribution partners to promote and sell our baijiu products, who together form an extensive sales and service network across China for us to rapidly scale our business presence in different geographic areas in a cost-effective manner. As distribution partners have greater access to local consumers due to their geographical proximity, familiarity with the local baijiu markets as well as local consumer connections, we believe that they are better positioned to help us penetrate into and sustain our growth in those markets by serving local consumers in a more responsive and bespoke fashion. Additionally, we also worked with an immaterial number of online distribution partners during the Track Record Period, which are mainly online grocery stores such as Tmall and JD.com distributing our products via online sales channels only. In 2020, 2021 and 2022, the number of our online distribution partners amounted to 13, 14 and 13, respectively. These online distribution partners contributed in aggregate less than 5% of our revenue throughout the Track Record Period.

As of December 31, 2022, we had established a broad network of 2,678 distribution partners across China, who have deep knowledge about our baijiu products and extensive sales experience. We have established a stable relationship with these distribution partners. Through the in-depth cooperation with our distribution partners, we are able to take advantage of their localized or online sales network to identify and acquire prospective consumers in markets with substantial growth potential, which also allowed us to expand our consumer base in a cost-effective manner.

We have devised a comprehensive set of onboarding policies to ensure a consistently high level of quality of our distribution partners. Before engaging a distribution partner, we usually interview qualified candidates, and make decisions based on their industry experience and consumer connections. Our engagement process includes review of requisite business licenses and qualifications as well as historical sales performance. Through our robust onboarding criteria, we are committed to building a nationwide network of distribution partners that are the best representatives of not only our baijiu products but also our corporate values.

The following table sets forth the movement in the number of our distribution partners during the periods indicated.

	For the year ended December 31,		
	2020	2021	2022
As of the beginning of the period	1,428	1,546	2,388
Additions of distribution partners	356	1,179	893
Termination of distribution partners	238	337	603
As of the end of the period	1,546	2,388	2,678

We engaged 356, 1,179 and 893 new distribution partners in 2020, 2021 and 2022, respectively. We engaged new distribution partners to help us penetrate into new geographical markets and enhance presence in existing markets, and to replace the distribution partners that were eliminated.

We discontinued our partnership with 238, 337 and 603 distribution partners in 2020, 2021 and 2022, respectively, primarily due to such distribution partners' sub-optimal performance, and/or violation of our contractual arrangements such as designated sales territory, and discontinuation of their distribution business. Revenue generated from the departing distribution partners in 2020, 2021 and 2022 accounted for only 2.7%, 4.0% and 5.1% of our total revenue generated from distribution partners during the same years, respectively. The number of the departing distribution partners, as a percentage of the total number of distribution partners as of the beginning of each year, increased from 16.7% in 2020 to 21.8% in 2021 and further to 25.3% in 2022. This was mainly because we voluntarily chose to eliminate an increasing number of distribution partners. While we have been progressively growing our distribution partner network to develop and enhance our business presence across geographical markets, we strive to build and maintain a pool of quality distribution partners which can perform up to our expectation and meet our stringent standards and requirements. Nevertheless, the proportion of the departing distribution partners, despite it being increasing during the Track Record Period, was generally consistent with the industry norm, according to Frost & Sullivan. During the Track Record Period and up to the Latest Practicable Date, we did not have any material unresolved disputes or lawsuits with these departing distribution partners. On the basis that, during the Track Record Period, (i) the departing distribution partners generated only an immaterial portion of our revenue, (ii) the departing distribution partners generally underperformed other distribution partners, as evidenced by their lower average revenue per departing distribution partner in each year during the Track Record Period, and (iii) we have been able to identify replacements for these departing distribution partners, our Directors do not believe these discontinued partnerships would cause a material adverse impact on our business and results of operations.

Key Contractual Terms with Distribution Partners

We typically enter into our standard distribution agreement with each of our distribution partners, except for large online distribution partners with which we usually enter into their respective form contracts. Key contractual terms of our distribution agreements with distribution partners include the following:

- *Terms and termination*. The distribution agreement typically has a term of one year with renewal options, subject to early termination by us in multiple cases where the distribution partner materially breaches its obligations under the agreement.

- *Performance deposit*. Before our business relationship with a distributor begins, the distributor is required to make an upfront payment of a certain amount of deposit to secure its proper performance of contractual obligations during the contract term. We will refund the performance deposit, net of any damages and fees due to us, at the time of contract termination.

- *Designated sales territory*. We designate sales territories within which our distribution partners are allowed to market and sell our baijiu products. A distribution partner is generally prohibited from marketing and selling our baijiu products outside its designated sales territory to avoid cannibalization. Online distribution partners are not subject to our designated sales territory restrictions.

- *Pricing policy*. We set unified recommended retail prices of our baijiu products across sales channels, and we generally allow distribution partners to offer price discounts as they deem fit without seeking our prior approval. Nevertheless, distribution partners shall not take any actions which might materially disrupt the retail prices of our products. We are entitled to adjust the prices at which we sell our baijiu products to our distribution partners based on market conditions.

- *Sales targets*. We require distribution partners to meet certain annual and/or quarterly sales targets during the term of engagement, which, on an annual basis, range from RMB1.0 million to RMB3.0 million in general. The specific amounts of sales targets may vary from one distribution partner to another across different sales territories, the determination of which is subject to various considerations, including general market conditions, level of economic development in a particular market, our penetration rate and strategic objectives as well as the estimated customer demand in the relevant market. We motivate our distribution partners by allowing them volume rebates if they achieve the sales targets set out in the distribution agreements without violating any contract terms. Should any distribution partner fail to meet such targets, we are entitled to discontinue our business relationship, taking into consideration of multiple factors including general market conditions, other distribution partners' sales performance, and availability of alternative distribution partners in relevant sales territories.

- *Product integrity*. Distribution partners are strictly prohibited under our distribution agreements from selling counterfeit baijiu products. We are entitled to discontinue our business relationship if any distribution partner is found to do so. We require distribution partners to scan the unique QR code assigned to each baijiu product before it is sold, which has enabled us to track product distribution, ensure product integrity, and assess the business performance of distribution partners.

- *Payment settlement*. Distribution partners are generally required to make full upfront payment to us before we ship our baijiu products. As a result, we did not have any material accounts receivables from our distribution partners in relation to purchase of our baijiu products during the Track Record Period. We are responsible for shipment costs incurred in connection with the delivery of our baijiu products to distribution partners.

- *Product return policy*. Consistent with the industry norm, we typically accept product returns in its original conditions during the contract term. Upon termination or expiration of the distribution agreement, the distribution partner is required to return the preserved products within 30 days. During the Track Record Period, we did not receive any material product returns from any of our distribution partners.

In 2020, 2021 and 2022, revenue generated from our distribution partners amounted to RMB1,673.0 million, RMB3,265.5 million and RMB3,467.1 million, respectively, representing 69.7%, 64.0% and 59.2% of our total revenue for the same periods. Revenue generated from our distribution partners experienced increases throughout the Track Record Period primarily because we have continued to expand our distribution partner network to broaden our consumer coverage. By contrast, revenue generated from our distribution partners as percentages of our total revenue continued to decrease during the Track Record Period as we continued to grow other sales channels. As of December 31, 2020, 2021 and 2022 and January 31, 2023, unsold inventory held by our distribution partners amounted to RMB62.6 million, RMB153.6 million, RMB165.9 million and RMB154.5 million, respectively.

Sub-distributors

We permit our distribution partners to engage sub-distributors, such as supermarkets, tobacco and liquor stores, within their respective designated sales territories to help them market and sell our baijiu products. To the best of our knowledge, as of December 31, 2022, the aggregate number of the sub-distributors was approximately 189,200, and substantially all of these sub-distributors are primarily engaged in distributing consumer goods directly to end consumers in China. We do not have any direct contractual relationships with a majority of these sub-distributors, whereas we enter into tripartite distribution agreements with selected sub-distributors and the relevant distribution partners. We believe such tripartite distribution agreements are mutually beneficial to each of the distribution partners, the sub-distributors and us. In particular, such tripartite distribution agreements with these selected sub-distributors allow us to provide direct support to the sub-distributors. In turn, it provides us with substantial insights into the preferences of and demands from end consumers across geographic areas. By directly incentivizing these selected sub-distributors to promote and sell our baijiu products, we have also increased our brand awareness among end consumers.

As of December 31, 2022, the number of the sub-distributors with which we had contractual relationships was 34,194, representing approximately 18.1% of the aggregate number of the sub-distributors as of the same date to the best of our knowledge. Set out below is a summary of key contractual terms of the tripartite distribution agreements with these selected sub-distributors and the relevant distribution partners:

- *Terms and termination*. The tripartite distribution agreement typically has a term of one year, subject to early termination by us in multiple cases where the sub-distributor materially breaches its obligations under the agreement.

- *Product supply*. The sub-distributors procure our baijiu products from our distribution partners, rather than us, based on their separate arrangements.

- *Sales targets*. We incentivize the sub-distributors by allowing them volume rebates if they achieve certain sales targets set out in the tripartite distribution agreements without violating any contract terms. The specific amount of volume rebates we offer to the sub-distributors may vary depending on multiple factors. For example, we offer one additional bottle of our baijiu products for free when a sub-distributor makes a bulk purchase of 10 bottles of the same product.

- *Product display*. Pursuant to the tripartite distribution agreements, the sub-distributors shall display our baijiu products in their points-of-sale according to our requirements set out in the agreements. We grant volume rebates to the sub-distributors who have displayed our baijiu products to our satisfaction. For example, when a sub-distributor displays our baijiu products in a predetermined area for one entire month, we may offer them one bottle of that product as a volume rebate.

- *Payment settlement*. Since the sub-distributors procure our baijiu products from our distribution partners, payments of product prices are made by the sub-distributors to our distribution partners. Our sub-distributors are required to make payments to their respective distribution partners upon the receipt of our baijiu products from them and shall not delay any payments.

Despite our contractual relationships with these selected sub-distributors, our distribution partners are generally responsible for making sure their respective distribution partners comply with our sales policies, including designated sales territories and pricing policies. If any sub-distributor is found to violate such sales policies, we are entitled under our distribution agreements with the relevant distribution partners to enforce our contractual rights, including terminating the relevant distribution agreements.

Featured Stores

We collaborate with certain distributors, or our store partners, to establish featured stores to increase the sales of our baijiu products and promote the Chinese baijiu culture and our brand recognition. These store partners that we choose to work with not only have strong local connections and resources, but also truly embrace our corporate culture and brand value. The featured stores are dedicated to exclusively serving our baijiu brands. As of December 31, 2022, we had built a broad network of featured stores in 31 provincial areas across China through our partnership with over 1,000 store partners, which are responsible for the daily operations of these featured stores.

The featured stores are usually situated in highly accessible locations, including high-end residential neighborhoods with secluded environments and street-level stores, depending on the market positioning of the baijiu brand that such featured store serve. At the featured stores, consumers may enjoy and purchase our baijiu products while immersing themselves in the profound Chinese baijiu culture. The featured stores have a cultural exhibition section, in which our consumers can learn and experience the long-standing tradition of baijiu making in China as well as our brand history. In addition, such featured stores engage our consumers with a variety of captivating activities, such as baijiu tasting, thereby enhancing our brand awareness and driving product sales. Consumers attracted by our products and activities at the featured stores tend to revisit those featured stores, and promote us to their business and personal networks. We believe the immersive, engaging consumer experience offered at the featured stores, combined with our quality baijiu products, has translated into a vast, loyal consumer base with attractive upselling opportunities.

Below are pictures of the featured stores we work with:

The following table sets forth the movement in the number of our store partners during the periods indicated, and as of December 31, 2022, we had a broad network of 1,108 featured stores across China.

	For the year ended December 31,		
	2020	2021	2022
As of the beginning of the period	132	360	862
Additions of store partners	241	591	459
Termination of store partners	13	89	247
As of the end of the period	360	862	1,074

We engaged 241, 591 and 459 new store partners in 2020, 2021 and 2022, respectively. We engaged new store partners to help us penetrate into new geographical markets and enhance presence in existing markets, and to replace the store partners that were eliminated.

We discontinued our partnership with an aggregate number of 13, 89 and 247 store partners in 2020, 2021 and 2022, respectively, primarily due to such store partners' sub-optimal performance, violation of our contractual arrangements, and/or discontinuation of their business. Revenue generated from the departing store partners in 2020, 2021 and 2022 accounted for only 0.03%, 3.7% and 4.8% of our total revenue generated from store partners during the same years, respectively. The number of the departing store partners, as a percentage of the total number of store partners as of the beginning of each year, increased from 9.8% in 2020 to 24.7% in 2021 and further to 28.7% in 2022. On the one hand, this was because we voluntarily chose to eliminate an increasing number of store partners. While we have been progressively growing the featured store network to develop and enhance our business presence across geographical markets, we strive to build and maintain a pool of quality store partners which can perform up to our expectation and meet our stringent standards and requirements. On the other hand, this was also because a growing number of store partners ceased their business because the brick-and-mortar featured stores were heavily impacted by the reduced customer traffic amid the

COVID-19 pandemic throughout the Track Record Period. Nevertheless, the proportion of the departing store partners, despite it being increasing during the Track Record Period, was generally consistent with the industry norm, according to Frost & Sullivan. During the Track Record Period and up to the Latest Practicable Date, we did not have any material unresolved disputes or lawsuits with these departing store partners. On the basis that, during the Track Record Period, (i) the departing store partners generated only an immaterial portion of our revenue, (ii) the departing store partners generally underperformed other store partners, as evidenced by their lower average revenue per departing store partner in each year during the Track Record Period, and (iii) we have been able to identify replacements for these departing store partners, our Directors do not believe these discontinued partnerships would cause a material adverse impact on our business and results of operations.

Key Contractual Terms with Store Partners

We typically enter into a standard business cooperation agreement with each of our store partners. Key contractual terms of the business cooperation agreements with our store partners are summarized as below:

- *Terms and termination*. The business cooperation agreement typically has a term of one year with renewal options, subject to early termination by us in multiple cases where the store partner materially breaches its obligations under the agreement.

- *Performance deposit*. Before our business cooperation with a store partner begins, the store partner is required to make an upfront payment of a certain amount of deposit to secure its proper performance of contractual obligations during the contract term. We will refund the performance deposit, net of any damages and fees due to us, at the time of contract termination.

- *Store operation*. Store partners are generally responsible for selecting the store location, securing the premise and managing the daily operation for the featured stores upon consultation with us. Pursuant to the business cooperation agreements, the featured stores should be designed and renovated in accordance with our requirements. Store partners following our guidance and requirements are allowed to claim reimbursements of relevant renovation expenses. Upon receipt and inspection of proofs of expenses satisfactory to us, we provide the store partners with our baijiu products of the same monetary value as the approved proofs of expenses.

- *Pricing policy*. We set unified recommended retail prices of our baijiu products across sales channels, and we generally allow store partners to offer price discounts as they deem fit without seeking our prior approval. Nevertheless, store partners shall not take any actions which might materially disrupt the retail prices of our products. We are entitled to adjust the prices at which we sell our baijiu products to our store partners based on market conditions.

- *Sales targets*. We require store partners to meet certain annual and/or quarterly sales targets, which, on an annual basis, range from RMB1.0 million to RMB3.0 million in general. The specific amounts of sales targets may vary from one store partner to another across different sales territories, the determination of which is subject to various considerations, including general market conditions, level of economic development in a particular market, our penetration rate and strategic objectives as well as the estimated customer demand in that market. We motivate our store partners by allowing them volume rebates if they achieve the sales targets set out in the business cooperation agreements without violating any contract terms. Should any store partner fail to meet such targets, we are entitled to discontinue our business relationship with the store partner, taking into consideration of multiple factors including general market conditions, other featured stores' sales performance, and availability of alternative store partners in relevant markets.

- *Product return policy*. Consistent with the industry norm, we typically accept product returns in its original conditions during the contract term. Upon termination or expiration of the business operation agreement, the store partner is required to return the preserved products within 30 days. During the Track Record Period, we did not receive any material product returns from any of our store partners.

- *Payment settlement*. Store partners are generally required to make full upfront payment to us before we ship our baijiu products. As a result, we did not have any material accounts receivables from our store partners in relation to purchase of our baijiu products during the Track Record Period. We are responsible for shipment costs incurred in connection with the delivery of our baijiu products to store partners.

- *Product integrity*. Store partners are strictly prohibited under our business cooperation agreements from selling any counterfeit baijiu products in the featured stores. We are entitled to discontinue our business relationship if any store partner is found to do so.

- *Product sales policies*. During the contract term, store partners are required to strictly comply with our product sales policies. Specifically, store partners are only permitted to sell our baijiu products in the featured stores, are not permitted to sell baijiu products of other companies and no product shall be distributed and sold to other online and offline sales channels to avoid cannibalization. If any material contract violation is found, we may discontinue our business cooperation with the store partners. In addition, we require store partners to scan the unique QR code assigned to each baijiu product before it is sold, which has enabled us to track product distribution, ensure product integrity, and assess the business performance of store partners. Store partners are motivated to follow the QR code policy since the amount of their volume rebates depend in part on their compliance with such policy.

In 2020, 2021 and 2022, revenue generated from the featured stores amounted to RMB346.5 million, RMB1,087.6 million and RMB1,283.9 million, respectively, representing 14.5%, 21.3% and 21.9% of our total revenue for the same periods. Revenue generated from the featured stores grew significantly throughout the Track Record Period due to the expansion of our store portfolio, which resulted from the increased popularity of our baijiu products and the consumer experience we offer in the featured stores. As of December 31, 2020, 2021 and 2022 and January 31, 2023, unsold inventory held by the featured stores amounted to RMB6.4 million, RMB29.8 million, RMB33.0 million and RMB36.1 million, respectively.

Retailers

We also directly partner with selected retailers that are not covered by our existing distribution partners to increase the density of our sales network. These retailers are primarily tobacco and liquor stores, restaurants and supermarkets that disperse in a market and are easily accessible by end consumers on a daily basis. As of December 31, 2022, we worked with 2,866 retailers in 31 provincial areas across China, which enables us to enhance our brand awareness among end consumers.

The following table sets forth the movement in the number of our retailers during the periods indicated.

	For the year ended December 31,		
	2020	2021	2022
As of the beginning of the period	1,563	1,707	1,575
Additions of retailers	292	483	1,621
Termination of retailers	148	615	330
As of the end of the period	1,707	1,575	2,866

We engaged 292, 483 and 1,621 new retailers in 2020, 2021 and 2022, respectively. We engaged new retailers primarily to help us penetrate into new geographical markets and enhance presence in existing markets, and to replace the retailers that were eliminated. We plan to enhance our connections with consumers and collect more consumer insights through our collaboration with the retailers. As a result, we on-boarded additional 1,621 retailers in 2022.

During the Track Record Period, we discontinued our partnership with an aggregate number of 148, 615 and 330 retailers in 2020, 2021 and 2022, respectively, primarily due to such retailers' sub-optimal performance, and/or violation of our contractual arrangements such as designated sales territory, and discontinuation of their retail business. During the Track Record Period and up to the Latest Practicable Date, we did not have any material unresolved disputes or lawsuits with these departing retailers.

Key Contractual Terms with Retailers

We typically enter into a standard retailer agreement with each of our retailers. Key contractual terms of our retailer agreements with retailers include the following:

- *Terms and termination.* The retailer agreement typically has a term of one year with renewal options, subject to early termination by us in multiple cases where the retailer materially breaches its obligations under the agreement.

- *Designated sales territory.* We designate sales territories within which our retailers are allowed to market and sell our baijiu products. A retailer is generally prohibited from marketing and selling our baijiu products outside its designated sales territory to avoid cannibalization.

- *Pricing policy.* We set unified recommended retail prices of our baijiu products across sales channels, and we generally allow retailers to offer price discounts as they deem fit without seeking our prior approval. Nevertheless, retailers shall not take any actions which might materially disrupt the retail prices of our products. We are entitled to adjust the prices at which we sell our baijiu products to our retailers based on market conditions.

- *Sales targets*. We require retailers to meet certain annual and/or quarterly sales targets during the term of engagement, which, on an annual basis, range from RMB0.1 million to RMB1.0 million in general. The specific amounts of sales targets may vary from one retailer to another across different sales territories, the determination of which is subject to various considerations, including general market conditions, level of economic development in a particular market, our penetration rate and strategic objectives as well as the estimated customer demand in that market. Should any retailer fail to meet such targets, we are entitled to discontinue our business relationship with the retailer, taking into consideration of multiple factors including general market conditions, other retailers' sales performance, and availability of alternative retailers in relevant markets.

- *Product integrity*. Retailers are strictly prohibited by our retailer agreements from selling any counterfeit baijiu products. We are entitled to discontinue our business relationship if any retailer is found to do so.

- *Payment settlement*. Retailers are generally required to make full upfront payment to us before we ship our baijiu products. As a result, we did not have any material accounts receivables from our retailers in relation to purchase of our baijiu products during the Track Record Period. We are responsible for shipment costs incurred in connection with the delivery of our baijiu products to retailers.

- *Product return policy*. We typically do not accept product returns from retailers, except that upon termination or expiration of the retailer agreement, the retailer is required to return the preserved products within 30 days. During the Track Record Period, we did not receive any material product returns from any of our retailers.

- *Product sales policies.* During the contract term, retailers are required to strictly comply with our product sales policies. Specifically, retailers are only permitted to sell our baijiu products to end consumers, no product is allowed to be sold to other retailers or through online channels. If any material contract violation is found, we may discontinue our business cooperation with the retailer. In addition, we encourage retailers to scan the unique QR code assigned to each baijiu product before it is sold, which could help us to track product distribution, ensure product integrity, and assess the business performance of retailers.

During the Track Record Period, revenue generated from retailers accounted for an immaterial portion of our total revenue. In 2020, 2021 and 2022, revenue generated from retailers amounted to RMB93.8 million, RMB176.0 million and RMB448.9 million, respectively, representing 3.9%, 3.5% and 7.7% of our total revenue.

Robust Management of Distributors

Maintaining a robust network of distributors and an effective cooperative relationship with them is crucial to our ability to drive sales results and ensure consumers' satisfaction. We manage and ensure the business performance and compliance of our distributors in the following ways:

- *Performance review*. We monitor our distributors' sales activities by requiring them to periodically provide us with sales reports, and utilizing our QR code system to trace the sales of products by our distributors. For details of our QR code system, see the bullet titled "Inventory Risk Management" below. Moreover, we periodically review the business performance of our distributors, on which basis we decide whether to continue our business relationship with any particular distributor.

- *Anti-cannibalization management*. We have put in place robust anti-cannibalization measures to foster healthy competition among our distributors, and across our different sales channels. With respect to potential competition among our distributors:

  – We specify in our distribution agreements the particular sales territory and/or sales channel, as the case may be, for each of our distributors, and prohibit them from promoting or selling our baijiu products outside their respective sales territories and sales channels. With respect to the featured stores, we require that, as principles, the distance between two featured stores shall be at least one kilometer, and only one featured store is allowed to be developed in a county-level administrative area in China.

  – Pursuant to our distribution agreement, when on-boarding a new distributor, we typically require the new distributor to develop customer relationships outside of our existing distribution network, and the new distributor is not permitted to poach customers of our existing distributors. We have established whistleblowing channels through which our existing distributors can report the noncompliant acts by our new distributor, and we have the discretion to discontinue our relationship with such noncomplying new distributor after our due investigation.

  – In the event that there are different types of distributors operating in the same designated sales territory, we generally engage them to sell baijiu products under our different brands, or same-brand products of different series, thereby differentiating their sales channels by target consumer groups.

  – For our online distribution partners that may sell our baijiu products across sales territories, we believe cannibalization risks are limited as we only work with an immaterial number of online distribution partners, which contributed less than 5% of our total revenue during the Track Record Period.

  With respect to potential competition between our direct sales force and distributors, we believe cannibalization risks are remote on the basis that (i) our direct sales team mainly promotes and sells our baijiu products to group-purchase customers that are typically enterprises and organizations, which is different from tobacco and liquor stores, restaurants, supermarkets and individual consumers that our distributors mainly target, and (ii) with respect to our self-operating online store across different e-commerce platforms that may potentially compete with our distributors, revenue generated therefrom contributed less than 5% of our total revenue throughout the Track Record Period.

- *Inventory risk management*. We have taken various steps to monitor the inventory level of our distributors. For example, we require our distribution partners and store partners, and encourage our retailers, to scan the unique QR code we assign to a baijiu product under our major baijiu brands whenever it is stocked up or shipped out such that we are able to monitor the inventory level on a real time basis. We have assigned QR code to a vast majority of our major baijiu products. 87.7% in terms of tonnage and 96.3% in terms of revenue of our baijiu products shipped out by our distribution partners and store partners were assigned QR codes in 2022. We take measures to ensure the effectiveness of our QR code system in monitoring our distributors' inventory levels. First, we incentivize our distributors to comply by offering them volume rebates only if they follow our QR code policies. As motivated by this incentive policy, 91.1% of the baijiu products with QR codes that were shipped out by our distribution partners and store partners in 2022, in terms of tonnage, were scanned by our distribution partners and store partners when they were shipped out. Second, we also encourage retailers, primarily tobacco and liquor stores, restaurants and supermarkets, who purchase our baijiu products from a distributor to scan the QR codes of the products they purchase such that we can monitor whether the distributor's inventory has been sold. 71.5% of the baijiu products with QR codes that were shipped out by our distribution partners and store partners in 2022, in terms of tonnage, were subsequently scanned by retailers who purchase our bajiu products from our distribution partners and store partners. Additionally, we closely inspect and analyze distributors' inventories on-site on both regular and unscheduled bases, which allows us to cross check the authenticity of their orders and inventory levels against the sales records enabled by our QR code system. During the Track Record Period, we did not identify any material discrepancies in sales records across our internal accounting system and our QR code system. Furthermore, we usually review a distributor's prior sales performance and inventory level before we deliver our baijiu products as requested in their new orders.

- *Contract compliance*. Our distributors are contractually required to strictly comply with our sales policies and guidelines set out in our agreements, or otherwise we will be entitled to damages for breach of contract. Fees received from distributors for breach of contracts were RMB0.3 million, RMB4.1 million and RMB9.0 million in 2020, 2021 and 2022, respectively. For details, see "Financial Information — Description of Major Components of Our Results of Operations — Other Income." Nevertheless, none of such breaches of contract had, individually or in aggregate, resulted in material adverse effect on our business and results of operations during the Track Record Period and up to the Latest Practicable Date.

- *Business integrity*. As part of our corporate culture, we are committed to the highest levels of business integrity in our daily operations, particularly our sales and marketing activities carried out through our distribution network. All of our distributors are contractually required to strictly comply with all applicable laws and regulations, including anti-bribery laws and regulations, when conducting any sales and marketing activities. The agreements we enter with distributors also prohibit any bribery or corruptive acts. In the event any illegal and/or fraudulent act is identified or reported, we will take immediate actions to investigate the relevant employees or distributors and have the right to terminate the collaboration according to our agreements with distributors and seek indemnity for losses incurred due to their misconducts.

Our Direct Sales Channel

We dedicate our direct sales team to serving group-purchase consumers and operating our online stores on different e-commerce platforms. As of December 31, 2022, our direct sales team consisted of 515 sales personnel with deep knowledge about China's baijiu industry and particularly our products, as well as extensive sales experience. Leveraging our local connections and consumer relationships, our direct sales team mainly promote and sell our baijiu products to group-purchase consumers. Our group-purchase consumers primarily are enterprises and organizations which purchase our baijiu products in bulk for their business occasions or as holiday gifts.

We have also been ramping up our online presence, catering to our consumers' evolving consumption patterns. Through our self-operated online stores on leading, nationwide third-party e-commerce platforms, such as JD.com and Tmall, our baijiu products are easily accessible by our consumers via a few clicks. Consumers also have the option to purchase our baijiu products under certain of our brands on Weixin applet. Our online sales grew rapidly throughout the Track Record Period. Revenue from our self-operated online stores was RMB24.0 million, RMB197.2 million and RMB279.1 million in 2020, 2021 and 2022, respectively. As we continue to expand our footprints online, we believe we are able to broaden our consumer coverage and forge a lasting connection between our brand and consumers.

In 2020, 2021 and 2022, revenue generated from our direct sales channels amounted to RMB285.6 million, RMB572.4 million and RMB656.0 million, respectively, representing 11.9%, 11.2% and 11.2% of our total revenue for the same periods.

BRANDING AND MARKETING

We adopt an innovative, immersive sales strategy which, combined with our quality baijiu products, accumulated a vast, loyal customer base. We believe adopting such sales mode is a long-term investment that will pay off throughout the selling journey, and we have devoted increasing sales force and other resources to support its development. We believe our brand names are the foundation of our long-standing connections with consumers and the key to our business success. Through our multi-channel branding and marketing strategy, we strive to build our brands as synonyms for premium baijiu in the market.

- We are committed to becoming the baijiu brands that can represent the time-honored Chinese baijiu culture. We endeavor to create unique experiences for our consumers to immerse themselves in the rich culture, while tasting our fragrant baijiu. To this end, we have established three featured distilleries open for consumers' tour, in which they can have in-person experience of baijiu making, blending and tasting.

- Consumers may also enjoy diversified cultural activities at a broad network of featured stores that we established with our store partners. Through this immersive, engaging experience, we seek to promote the traditional Chinese baijiu culture that our baijiu brands stand while at the same time increase our brand awareness and value. See " — Sales and Distribution — Distributors — Featured Stores" for details.

- Adapting to the emergence of social media, we place significant value on our online marketing initiatives and campaigns. We actively work with social media platforms, such as Douyin, Weixin and Weibo, to convey our brand propositions and encourage dissemination of our brand names. To promote the Chinese baijiu culture that is deeply embodied in our baijiu products, we have launched a series of short videos on multiple social media platforms, spreading knowledge about baijiu, telling our brand stories and showcasing our baijiu production process. We view our creative, short yet informative videos as a mean to engage consumers who resonate with our brand propositions and are willing to recommend us to others. We have achieved initial market success since we launched these short videos, with the most viewed one for *Zhen Jiu* having amassed nearly two million view counts on Douyin. We also partner with key opinion leaders on various social media platforms to enhance our brand awareness. We believe our active social media management has in the past helped us build a strong presence among consumers, and will continue to assist us in maintaining and increasing our consumer base as well as our brand exposure.

We also regard online and offline advertisements as one of our core branding and marketing initiatives. We collaborate with household television programs to advertise our brand names. *Zhen Jiu*'s advertising before Xinwen Lianbo and during CCTV New Year's Gala, for instance, amassed over 4.7 billion views. We place our offline advertisements mainly at airports, high-speed railway stations, and city billboards where the target consumer traffic is high. From time to time, we also sponsor popular television programs, web series and live streaming to increase our brand exposure. For example, *Zhen Jiu* sponsored Jinri Toutiao's special solicitation for article submission and live streaming event during the Mid-Autumn Festival in September 2021, which amassed millions of view counts and thousands of discussions.

PRODUCT PRICING

We believe our leading position in our industry in China as well as our brand recognition and product quality have provided us with strong pricing power. We generally take into account a number of factors to set the prices of our baijiu products, including brand positioning, cost of production, market demand and competition.

We price our baijiu products sold in online sales channels with reference to the recommended retail prices of the same product series. We also offer certain product lines exclusively in the online channels, the prices of which are adjusted with the prevailing spending patterns of the online communities and alignment with the sales and promotion events organized by the online sales platform from time to time.

OUR CUSTOMERS

Our customers consist primarily of our distributors and direct sales clients. We sell our baijiu products mainly through a nationwide network of distributors as well as via our direct sales team. For details of our relationship with distributors, including the key contractual terms, see " — Sales and Distribution — Distributors."

Revenue generated from our five largest customers in each of 2020, 2021 and 2022 accounted for 6.5%, 7.6% and 4.6% of our total revenue for the respective periods. Huaze Liquor Sales Co., Ltd. (華澤酒業銷售有限公司), or Huaze Liquor, a liquor distribution company previously controlled by Mr. Wu through Jindong Group, contributed to 0.01% and 2.0% of our total revenue in 2020 and 2021, respectively. Jindong Group disposed its entire equity interest in Huaze Liquor to an Independent Third Party and ceased to have any equity interest in Huaze Liquor in December 2021. See "Financial Information — Related Party Transactions" for further details. The following table sets forth the details of our five largest customers during the Track Record Period.

Rank	Customer	Type of products sold	Background	Year of commencement of business relationship	Revenue amount (RMB'000)	Percentage of total revenue
For the year ended December 31, 2020						
1	Customer A	Baijiu products	A privately-owned company headquartered in Guizhou that engages in the sales of baijiu products	2016	44,041	1.6%
2	Customer B	Baijiu products	A privately-owned company headquartered in Guizhou that engages in the sales of baijiu products	2016	42,556	1.4%
3	Customer C	Baijiu products	A privately-owned company headquartered in Hunan that engages in the sales of baijiu products	2017	34,484	1.3%
4	Customer D	Baijiu products	A privately-owned company headquartered in Hunan that engages in the sales of baijiu products and food	2013	30,031	1.3%
5	Customer E(1)	Baijiu products	A privately-owned company headquartered in Hunan that engages in the sales of alcohol and other products	2020	22,609	0.9%

Rank	Customer	Type of products sold	Background	Year of commencement of business relationship	Revenue amount (RMB'000)	Percentage of total revenue
For the year ended December 31, 2021						
1	Huaze Liquor	Baijiu products	A privately-owned company headquartered in Hunan that engages in the sales of baijiu products	2020	103,111	2.0%
2	Customer F(2)	Baijiu products	A privately-owned e-commerce platform company headquartered in Beijing which is indirectly wholly-owned by a company listed on the Main Board of the Stock Exchange	2021	92,015	1.8%
3	Customer A	Baijiu products	A privately-owned company headquartered in Guizhou that engages in the sales of baijiu products	2016	73,716	1.4%
4	Customer B	Baijiu products	A privately-owned company headquartered in Guizhou that engages in the sales of baijiu products	2016	70,154	1.4%
5	Customer H	Baijiu products	A privately-owned online consumer products retailer headquartered in Zhejiang	2020	48,719	1.0%
For the year ended December 31, 2022						
1	Customer B	Baijiu products	A privately-owned company headquartered in Guizhou that engages in the sales of baijiu products	2016	75,321	1.3%

Rank	Customer	Type of products sold	Background	Year of commencement of business relationship	Revenue amount (RMB'000)	Percentage of total revenue
2	Customer A	Baijiu products	A privately-owned company headquartered in Guizhou that engages in the sales of baijiu products	2016	66,549	1.1%
3	Customer F	Baijiu products	A privately-owned e-commerce platform company headquartered in Beijing which is indirectly wholly-owned by a company listed on the Main Board of the Stock Exchange	2021	58,267	1.0%
4	Customer K	Baijiu products	A privately-owned company headquartered in Henan that engages in the sales of baijiu products	2018	37,057	0.6%
5	Customer L(3)	Baijiu products	A privately-owned company headquartered in Hainan that engages in the sales of baijiu products	2022	36,307	0.6%

Notes:

(1) We commenced business relationships with Customer E from 2020 because we previously engaged in business with Customer E's sister company under the same parent entity since 2014 to distribute our baijiu products in Changsha, Hunan, and since 2020, the year when Customer E was newly established, such sister company handed over such distribution business to Customer E. Our revenue derived from Customer E in 2020 was commensurate with our revenue derived from Customer E's sister company in 2019, leveraging our long-standing relationship with such sister company since 2014.

(2) We commenced business relationships with Customer F from 2021 to distribute our baijiu products on the e-commerce platform operated by Customer F. From 2017 to 2021, we engaged an online distribution partner to sell our baijiu products to Customer F for sale on Customer F's e-commerce platform. Since 2021, we ceased our collaboration with such online distribution partner in this respect and started to sell our baijiu products directly to Customer F. Leveraging our previous collaboration with the online distribution partner from 2017 to 2021, we have accumulated a solid customer base for our product sales on Customer F's platform and generated a relatively high amount of revenue from our transactions with Customer F in 2021.

(3) We commenced business relationships with Customer L from 2022. The parent company of Customer L is a large group company based in Shandong that engages in the sales and distribution of baijiu products under leading brands for over 20 years. We were acquainted with Customer L and its parent company when we were seeking business collaborations to expand our presence in Shandong market in 2021. Leveraging the abundant sales experience and extensive distribution network of Customer L's parent company, we generated a relatively high amount of revenue from our transactions with Customer L in 2022.

Except Huaze Liquor, to the best of our knowledge, none of our five largest customers during each year of the Track Record Period is a connected person or a supplier of us. As of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who or which to the knowledge of the Directors owned more than 5% of our issued share capital) had any interest in any of our five largest customers during each year of the Track Record Period. All of our five largest customers during each year of the Track Record Period were Independent Third Parties, except Huaze Liquor.

We value our customers' feedback and we strive for customer satisfaction. To this end, we have established dedicated customer service teams under different baijiu brands with more than 40 members. Our customer service teams are primarily responsible for answering customers' queries, coordinating product logistics and delivery, collecting customers' feedback and handling customer complaints. We operate customer hotlines to address customers' needs, and actively communicate with our customers on social media platforms. In addition, our customer service staff proactively conduct customer surveys to better understand our customers' feedback and needs. In addressing the consumers' complaints, specifically, we undertake to communicate and liaise with the consumers through a variety of feedback mechanisms in a timely manner and to commence the quality investigation procedures if necessary. Our customer service team also keeps records of all complaints and the results of any investigation or resolution measures in order to track the progress of customer complaint handling. During the Track Record Period, we did not receive any material complaints from consumers in connection with product quality.

SUPPLY CHAIN MANAGEMENT

We believe that maintaining high quality of our products depends largely on our ability to acquire the best available raw materials and other necessary supplies from reliable suppliers.

Procurement

We primarily procure raw materials and supplies, such as grains, and packaging materials and low value consumables such as baijiu bottles and packages, and base liquor. We particularly place a significant focus on the procurement of production materials, which have a material and direct impact on the quality and taste of our baijiu products, and in turn, our brand reputation. Therefore, we have been and will continue to select our suppliers for base liquor and grains and optimize our raw materials procurement process with extra care to ensure a consistent level of quality and flavor for our baijiu products, while reducing procurement costs and improving our long-term profitability. To control our procurement costs, our agreements with suppliers generally provide that fluctuations of raw material prices within a certain range shall not affect the purchase price set out in the agreements. Change in the availability and price of raw materials is one of the many factors we consider when assessing if we should make a price adjustment. The decision to adjust our product price will be made after evaluating, among others, the market demand, availability and price of raw materials, price adjustment policies of other market players and our brand positioning.

- *Grains*. We source quality grains, primarily sorghum, wheat and rice, from third-party suppliers across China. As the quality of grains are critical to the taste and texture of finished baijiu products, we require the grains provided by our third-party suppliers to meet our specifications and requirements. To ensure the integrity of the grains we procure during storage, we implement strict quality control measures. For details, see " — Quality Control — Quality Control over Logistics and Warehousing."

- *Base liquor.* To meet the increasing market demand, we collaborated with selected third-party distilleries to produce base liquor during the Track Record Period. See " — Production Facilities — Collaborated Production of Base Liquor" for details. During the Track Record Period, we also procured base liquor primarily for the blending of strong aroma and mixed aroma products to improve our production capacity.

We incurred cost of production materials of RMB496.4 million, RMB989.5 million and RMB1,125.8 million in 2020, 2021 and 2022, respectively, accounting for 43.3%, 41.7% and 43.0% of our cost of sales for the same periods.

Our Suppliers

Supplier Selection and Management

We maintain a list of qualified suppliers for raw materials and base liquor, with more than one alternative supplier correspondingly. We also periodically review the performance of our existing suppliers and evaluate the necessity and benefit of working with additional suppliers to support our production. Before making a procurement, our procurement department pre-screens supplier candidates based on, among others, their certificates and qualifications, production capacity, and product quality inspection reports, regardless of any previous transactions with them. We inspect product samples of those supplier candidates who passed our pre-screening. Depending on the pre-screening and sample inspection results, we may conduct on-site inspections to ensure that they and their products comply with our quality standards. We then rate each of the supplier candidates and partner with suppliers of the highest rating. We also have dedicated quality control specialists to conduct regular and random on-site inspections on our suppliers frequently to ensure the quality of the supplies. We periodically review and evaluate the performance of our suppliers based on such on-site inspections as well as the overall quality of their supplies.

We typically retain multiple suppliers for each of the major raw material needed for the production of our baijiu products to reduce reliance on any particular supplier. We have since our inception identified and established stable, trustful business relationships with reliable suppliers for each major raw material. Among the five largest suppliers in 2022, four of them have collaborated with us for more than four years. We believe that we have maintained a large pool of qualified suppliers to meet the demands and standards for our products. In 2020, 2021 and 2022, we engaged 44, 65 and 78 suppliers for the supply of base liquor and major raw materials, including sorghum, wheat and rice. We believe that our stringent supplier selection and inspection criteria, abundant pool of qualified suppliers, and stable business relationships with reliable suppliers, enable us to secure stable supply, ensure supply quality, avoid over-reliance risk and minimize the risks of unexpected fluctuation in raw material prices. During the Track Record Period, we did not experience any material incidents of supply interruption, early termination of contractual arrangements with our suppliers or supply shortage of raw materials.

Key Contractual Terms of Supply Agreements

We usually do not enter into long-term supply agreements with suppliers of raw materials. For summary of our standard agreements that we enter into for the collaborated production of base liquor, see

" — Production Facilities — Collaborated Production of Base Liquor" for details. Set out below is a summary of our standard supply agreement for base liquor that we enter into with our suppliers.

- *Term*. Typically one year subject to annual review and renewal.

- *Quality*. Detailed quality standards and specifications for the procured goods are set forth in the supply agreement. For raw material to be used in our baijiu products, the suppliers are contractually obliged to present to us relevant licenses and certificates such as quality inspection certificates in connection with the products to be delivered to us. The suppliers shall be liable for compensation if we are subject to penalties imposed by the relevant administrative authorities or if our consumers suffer personal injuries or property damages due to quality deficiencies of products sold by the suppliers.

- *Pricing*. Pre-determined price of the procured goods is set forth in the supply agreements.

- *Delivery*. The suppliers are required to deliver the procured goods to our designated place pursuant to the supply agreements and shall bear any related logistics costs.

- *Inspection and acceptance*. The procured goods are subject to our inspection upon arrival at our designated place, and we may refuse acceptance of any defective products.

Major Suppliers

Purchases from our five largest suppliers in each of 2020, 2021 and 2022 accounted for 35.5%, 38.4% and 29.1% of our total purchases for the respective periods. Purchases from our largest supplier in each of 2020, 2021 and 2022 accounted for 13.6%, 13.3% and 7.0% of our total purchases for the respective periods.

The following table sets forth the details of our five largest suppliers during the Track Record Period.

Rank	Supplier	Type of products/services purchased	Background	Year of commencement of business relationship	Purchase amount (RMB'000)	Percentage of total purchase
For the year ended December 31, 2020						
1	Supplier A	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2018	158,432	13.6%
2	Supplier B	Production material	A privately-owned company headquartered in Sichuan that engages in the production and sales of liquor related materials	2018	105,516	9.0%

Rank	Supplier	Type of products/services purchased	Background	Year of commencement of business relationship	Purchase amount (RMB'000)	Percentage of total purchase
3	Supplier C	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2018	50,937	4.4%
4	Supplier D	Production material	A privately-owned company headquartered in Guizhou that engages in the sales of liquor related materials	2018	49,561	4.2%
5	Supplier E	Grains	A privately-owned company headquartered in Guizhou that engages in the processing, storage and sales of agricultural products	2019	49,230	4.2%
For the year ended December 31, 2021						
1	Supplier A	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2018	536,700	13.3%
2	Supplier C	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2018	294,039	7.3%
3	Supplier B	Production material	A privately-owned company headquartered in Sichuan that engages in the production and sales of liquor related materials	2018	260,756	6.5%
4	Supplier F	Plants and buildings construction services	A privately-owned company headquartered in Hunan that engages in the design and construction of buildings and plants	2020	255,817	6.4%
5	Supplier G	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2019	196,992	4.9%

Rank	Supplier	Type of products/services purchased	Background	Year of commencement of business relationship	Purchase amount (RMB'000)	Percentage of total purchase
For the year ended December 31, 2022						
1	Supplier A	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2018	297,278	7.0%
2	Supplier F	Plants and buildings construction services	A privately-owned company headquartered in Hunan that engages in the design and construction of buildings and plants	2020	295,611	7.0%
3	Supplier C	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2018	242,578	5.7%
4	Supplier B	Production material	A privately-owned company headquartered in Sichuan that engages in the production and sales of liquor related materials	2018	219,918	5.2%
5	Supplier I	Grains	A privately-owned company headquartered in Guizhou that engages in the processing, storage and sales of agricultural products	2018	181,348	4.3%

None of our Directors, their respective associates, or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of our five largest suppliers during each year of the Track Record Period. None of our major suppliers are our major customers and vice versa. All of our five largest suppliers during each year of the Track Record Period were Independent Third Parties.

INVENTORY MANAGEMENT

We maintain a large amount of inventories, consisting primarily of (i) raw materials, mainly including grains used to produce our baijiu, and packaging materials, (ii) work-in-progress, mainly including our base liquor, and (iii) finished baijiu products that we or our distributors hold for sales. A majority of our inventories at each period end are work-in-progress. In addition, our inventory turnover days were relatively long during the Track Record Period, primarily attributable to the requisite aging procedures in our baijiu-making process. To optimize our inventory levels and minimize inventory write-down risks, we have a comprehensive set of inventory management policies. Our inventory management is a cross-departmental collaboration spanning procurement, logistics, brand building, product sales and finance, making sure our inventory level remains at an optimal level. We formulate dynamic production plans taking into account the market demand and inventory levels. We launch marketing initiatives from time to time catering to our desired inventory level. Moreover, we require our regional managers to visit warehouses on-site to check and analyze inventory levels and report the status on a monthly basis. We monitor our inventory turnover days categorized by raw materials and packaging materials, work-in-progress, as well as finished baijiu products that we or our distributors hold for sales. We monitor the level of our inventory of raw materials to maintain a level sufficient for us to update our baijiu-making and make procurement plans where necessary. Our inventory levels for our work-in-progress and finished baijiu products are largely determined by projected sales levels in the forthcoming periods, which we usually plan ahead in accordance with prevailing market trends and consumer preferences. We increased our inventory level in 2021 and 2022 in response to the growing market demand for our baijiu products.

The unsold inventories with our distribution partners and featured stores are baijiu products purchased by them based on their sales demand. We do not set a minimum level of inventory for our distribution partners and featured stores. As we generally do not accept product returns from distribution partners and featured stores once they have sold such products, we believe that the risk exposure of channel stuffing is limited. In addition, we review the prior sales performance and inventory level of each distribution partner or featured store before delivering products pursuant to its purchase order. If the inventory level of a distribution partner or featured store exceeds 30% of its annual sales target, we generally suspend processing of any new purchase order unless there are special circumstances where the prior consent is required from us before processing the purchase order. During the Track Record Period, the turnover days of the unsold inventories with our distribution partners and featured stores calculated based on corresponding costs in our total cost of sales generally ranged from one to two months. According to Frost & Sullivan, based on their primary and secondary research, distributors in baijiu industry usually purchase baijiu products based on their sales demand and the level of inventory turnover days of our distribution partners and featured stores are in line with industry norm. We closely track inventories across different premises through our digital system. We require our distribution partners and featured stores to scan the QR code we assign to a baijiu product under our major baijiu brands whenever it is shipped out. Therefore, coupled with the inspection and analysis conducted by our sales personnel on both regular and unscheduled bases, we are able to monitor the inventory level throughout the entire distribution process, such as when the products are shipped from our warehouses to the premises of the distribution partners and featured stores, and when the products are shipped out by such distribution partners and featured stores. It generally takes one to five days for us to deliver baijiu products from our warehouses to our distribution partners and featured stores. See "Financial Information — Discussion of Certain Key Items from Our Consolidated Statements of Financial Position — Inventories" for details. We also implement vigorous quality control measures to ensure integrity of our inventories. For details, see " — Quality Control — Quality Control over Logistics and Warehousing."

LOGISTICS AND WAREHOUSING

With respect to raw materials and packaging materials we procure, the third-party suppliers are responsible for transportation and delivery of the products to us. Pursuant to the agreements we enter into with these suppliers, they are contractually required to take necessary measures to make sure the products in transit will not be damaged or contaminated. We are entitled under the agreements to decline any defective products.

We primarily engage reliable local logistics partners to transport finished baijiu products to our customers. Pursuant to the agreements we entered into with these logistics partners, we require that vehicles used for us be thoroughly cleaned. We also require our logistics partners to deliver our products in accordance with our instructions and on time, and they shall bear the risks of loss in transit. Delivery costs are settled on a monthly basis.

PRODUCT DEVELOPMENT

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, 2022, our product development team consisted of 195 employees, among whom a vast majority have bachelor's degree or above. Our product development team is spearheaded by a technical committee consisting of 25 recognized baijiu experts with extensive industry experience, among whom four are national appraisers of baijiu, nine hold senior liquor-making certificates, and ten hold senior engineer qualifications.

We have also strengthened our product development capabilities by collaborating with several universities and research institutions, such as Jiangnan 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 during baijiu production for the enhancement of the flavor and functional quality of our baijiu products. For example, we conducted cooperative research with Guizhou University on projects such as the relationship between the diversity of microbial flora and the quality of sauce aroma baijiu products, and the screening of functional strains of alcoholic and sweet flavor-producing microorganisms in the fermentation process, and the research results have been awarded national and provincial science and technology prizes. Under our collaboration agreements with the third-party institutions, we retain the proprietary right to any jointly developed patents.

We have been continuously evolving our product offerings through selective new additions, withdrawals and modifications to meet the ever-changing needs of consumers and marketplace. Our product development cycle for a new baijiu product usually takes 3 to 12 months, which can be generally divided to the following stages:

- *Product roadmap.* At the initial stage of our product development process, we make product innovation and improvement plans based on market trends and our business strategies.

- *Recipe design.* Our baijiu recipe is designed by industry veterans who are able to identify the balanced and sophisticated base liquor combination, in order to create the desired fragrance and flavor.

- *Test blending.* We usually prepare several types of base liquor and selectively blend them using different recipes developed. After an internal round of anonymous testing, we determine the best recipe ready for sample production.

- *Sample production and testing.* After producing testing samples based on the preliminary recipe, we conduct rigorous internal sample testing and market research against flavor analysis, quality standards and consumer expectations. We collect feedback and refine our recipes accordingly.

- *Pre-launch testing*. Upon internal approval for the refined recipes, we will test our new products through market survey to collect consumer feedback at various baijiu tasting events. We believe this exercise helps us improve product quality and evaluate consumer acceptance.

- *Mass production.* If the sample product receives positive feedback from the market survey, we will initiate mass production process. In the event that the product sample fails the market survey, we will re-design the recipe and repeat the processes described above.

DIGITAL INFRASTRUCTURE

Reliable and streamlined digital infrastructure have been, and will continue to be, essential for us to enable growth and achieve greater efficiency. We have established integrated digitalized management system to support major aspects of our operations. We also utilize data analytics to facilitate business decision making, reduce operational costs and improve our operational efficiency, all contributing to enhanced overall profitability.

Production Digitalization

We have developed procurement and production systems to optimize our baijiu-making process. With the digital procurement system, we are able to make purchases according to market fluctuations and actual production needs, enhance supplier screening and management, and improve the efficiency of procurement approval and execution. In addition, by combining time-honored baijiu-making techniques with a modern, intelligent production management system, we could improve production efficiency, control production costs and maintain product quality while preserving the traditional flavor of our baijiu products.

- *Digital Base Liquor Management System.* We develop digital base liquor management system as an effective tool to enhance the management of base liquor in stock, especially those stored in jars, which are our important strategic assets. We 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.

- *Internet of Things.* We develop digital infrastructure comprising systems and modules including the Internet of Things at our production facilities to further digitalize and intelligentize our baijiu production. By recording, monitoring and analyzing environmental data and production conditions in real time for each process step, we are able to achieve more precise control of product quality.

Sales and Marketing Digitalization

We endeavor to continuously improve the capabilities of various digital operation tools in the process of sales and marketing. Specifically, we have developed proprietary Weixin applets and applications to directly engage with end-consumers, empower front-line employees, collect, and analyze key performance indicators on a real-time basis. For example, we have launched, among others, the following tools:

- *Channel Master (渠道通) Weixin Applet and Distributor Management Platform. Channel Master* is a Weixin applet applied during the sales process to improve the transparency of the distribution channel and promote sales efficiency. By accessing the applet and logging into the management platform, distributors can efficiently and conveniently manage the entire distribution process and perform logistics tracking, including procurement, inventory management and sales to consumers. The records will automatically be kept in our system for further inquiry and verification. Distributors can request volume rebates after consumers pay for the orders by scanning QR code, thus promoting their sales.

- *QR Code System and RFID.* We developed a QR code system to enable more efficient control and management of product quality, distribution channels and marketing methods. Each of our baijiu products has a QR code containing product information, which can be automatically displayed by scanning. The whole distribution process can also be recorded by scanning the QR code, according to which our marketing managers can timely identify any possible misconducts during the sales process based on checking and analysis of the records for the expected distribution area, which significantly reduces the labor cost while strengthening the control and management of distributors. In addition, the QR code can serve as an effective marketing tool to attract consumers through incentives and participation in offline activities. For certain of our premium and deluxe products, we incorporate QR code with RFID technology to prevent counterfeiting. The RFID chip, linked with the QR code printed inside the bottle lid, will automatically authenticate the product and enable more accurate and effective anti-counterfeiting.

- *Fengtanjiu (封壇酒) Weixin Applet.* Fengtanjiu is a Weixin applet to directly engage end consumers to create customized shopping experience. Through this applet, consumers who have placed their orders are involved in the design and production of customized baijiu products sealed in vintage jars, known as fengtanjiu. Consumers can customize, place orders and arrange fulfillment with this applet for products under different brands and in different geographic areas. With the support of communication and data transmission technology, the applet also displays the photos of sealing process to consumers online, which can be further shared to potential users through forwarding to increase brand awareness.

Management Digitalization

Our management-end platforms and systems support front-end tools and our overall operation. By centralizing module parts that are heavily utilized during daily operations into digital infrastructure, management-end platforms are developed to increase data collection unification and consistency, enhance collaboration among different departments, and improve data transparency and accessibility by various functions, each of which will improve our operating efficiency and reduce management cost. For example, we have adopted, among others, the following systems and platforms:

- *ERP System.* Our ERP system consists of the following components: (i) financial accounting; (ii) treasury management; (iii) management accounting; (iv) supply chain management; and (v) asset management. The application of ERP system allows us to achieve better control and tracking of information and records in various stages of our operation process while minimizing human error.

- *Data Middle Platform.* We established our data middle platform that aims to unify our data assets to empower all business departments by providing readily available data models and tools to empower our business development, sales, marketing and consumer operations. Meanwhile, we plan to continue to upgrade and improve our information technology systems to support the growth and expansion of our business operations.

- *Sales Master (掌上珍酒) App. Sales Master* is a mobile application tailored for our sales personnel to optimize their marketing efforts. The App tracks the location of our sales personnel and generate the optimal route for consumer visits. In addition, our sales personnel can directly place orders in the App, thereby reducing time costs and accelerating the sales process.

COMPETITION

We operate in a highly competitive and rapidly evolving baijiu market. We currently compete with a large and growing number of nationwide and local baijiu brands with diverse aroma profiles in China based on a number of factors, including brand reputation, product quality and flavors, production capacity, comprehensive business operation capabilities for those expanding nationwide, as well as consumer recognition and precise marketing for those penetrating the regional market. Existing leading baijiu companies have been continuously increasing their market concentration through expansion and mergers, while emerging brands may further increase competition in our industry. Our competitions with nationwide and local baijiu brands, existing leading baijiu brands and emerging baijiu brands with strong growth momentum, are expected to continue and intensify while we expand our market presence.

We believe that we are well-positioned to compete effectively on the basis of the foregoing factors. Nevertheless, our competitors may have longer operating histories, greater brand recognition, larger consumer bases, more established local presence as well as greater financial, technical and other resources. See "Risk Factors — Risks Relating to Our Business and Industry — We operate in a highly competitive and rapidly evolving market in China." in this prospectus. For more information on the competitive landscape of our industry, see "Industry Overview."

LICENSES AND PERMITS

As of the Latest Practicable Date, we had obtained requisite licenses, approvals and permits from relevant governmental authorities that are material to our business operations in China. The following table sets out a list of the material licenses and permits currently held by us.

Name of Licenses, Permits and Approvals	Holder	Expiry Date/ Registration Status
Food Production License (食品生產許可證)	Zhenjiu Brewing	March 24, 2027
Water Drawing License (取水許可證)	Zhenjiu Brewing	April 17, 2024
Pollution Discharge Licenses (排污許可證)	Zhenjiu Brewing	January 14, 2028 and November 14, 2026
Food Operation License (食品經營許可證)	Zhenjiu Sales	September 26, 2023
Food Operation License (食品經營許可證)	Zhenjiu Trading	September 19, 2024
Food Production License (食品生產許可證)	Hunan Xiangjiao	August 19, 2026
Pollution Discharge License (排污許可證)	Hunan Xiangjiao	March 8, 2028
Food Operation License (食品經營許可證)	Hunan Xiangjiao Sales	June 23, 2026
Food Operation License (食品經營許可證)	Shaoyang Xiangjiao	December 9, 2026
Food Production License (食品生產許可證)	Jiangxi Lidu	December 5, 2026
Water Drawing License (取水許可證)	Jiangxi Lidu	December 26, 2026
Pollution Discharge License (排污許可證)	Jiangxi Lidu	August 14, 2027
Food Operation License (食品經營許可證)	Jiangxi Lidu Sales	December 19, 2023
Pollution Discharge License (排污許可證)	Jindong Sauce	February 22, 2028

PROPERTIES

As of the Latest Practicable Date, we owned 24 parcels of land in China with an aggregate gross site area of approximately 3,041,743 square meters, and owned 218 buildings with an aggregate gross floor area of approximately 809,237 square meters. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules.

As of the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

As of the Latest Practicable Date, we, as the landlord, leased out one building and, as the tenant, leased 50 buildings for warehouses and offices.

Owned Properties

Land

As of the Latest Practicable Date, we owned 24 parcels of land in China with an aggregate gross site area of approximately 3,041,743 square meters.

Buildings in Use

As of the Latest Practicable Date, we owned 218 buildings located in China, with an aggregate gross floor area of approximately 809,237 square meters. These buildings are mainly designated to be used as our distilleries and auxiliary production facilities.

As of the Latest Practicable Date, we have not obtained the building ownership certificates for four of our 218 buildings with an aggregate gross floor area of approximately 12,118 square meters. As advised by our PRC Legal Advisor, the lack of such building ownership certificates does not subject us to any administrative penalty under applicable PRC laws and regulations, but we may not transfer, mortgage or disposal of the underlying properties until we obtain the relevant building ownership certificates.

For one out of these four buildings with a gross floor area of approximately 4,507 square meters, we have not obtained the building ownership certificate since we have not completed the required as-built acceptance filing (竣工驗收備案) and certain related procedures for this building. For the remaining three buildings with an aggregate gross floor area of approximately 7,611 square meters, we were in the process of applying for the building ownership certificates as of the Latest Practicable Date. While we have not received the building ownership certificates, we have completed the as-built acceptance filings for these three buildings. As preconditions for such as-built acceptance filings, relevant local governmental authorities and parties responsible for the design, construction, survey and quality control of these buildings have thoroughly inspected the safety conditions of, including their fire safety, in accordance with applicable regulations, rules and standards.

Our PRC Legal Advisor has advised us that, with respect to the building that was put into use before we complete the required as-built acceptance filing and certain related procedures, we may be ordered to take remedial measures, and the relevant governmental authorities may impose fines on us. As advised by our PRC Legal Advisor, the maximum amount of fines that we may be subject to for such building would be approximately RMB1 million.

As of the Latest Practicable Date, we were in the process of preparing our application for the as-built acceptance filing for this building currently in use. The expected time for completion of the as-built acceptance filing is subject to various factors that may be out of our control, which include the application review process of the relevant local governmental authorities. Nevertheless, we have been and will continue mobilizing our internal resources and using all commercially reasonable efforts to complete such procedures as soon as possible.

As a form requirement to complete the application for the as-built acceptance filing for the one building, we engaged qualified third-party appraisers to conduct independent inspections on such building. As confirmed by these third-party appraisers, such building has met the applicable criteria and standards in all material aspects, such as construction, fire safety and environmental protection, for submission of application for the as-built acceptance filing.

In addition, we have obtained confirmations from the competent governmental authorities, that (i) there had been no administrative penalty that was imposed on us for our use of this building during the Track Record Period, and (ii) we will not be subject to any administrative penalties for our use of this building. Based on such confirmations, our PRC Legal Advisor is of the view that (i) the risk that the relevant governmental authorities impose a material administrative penalty on us, including suspending production and business operations, demolishing the building in a prescribed period and confiscating the building, due to our use of this building before completing the required as-built acceptance filing and certain related procedures is remote, and (ii) there is no substantial legal impediment for us to obtain the required as-built acceptance filing and the building ownership certificate if we submit the application along with the required materials and documents to the relevant governmental authorities to their satisfaction.

Buildings under Construction

As of the Latest Practicable Date, we also had 28 buildings under construction with an aggregate designed gross floor area of approximately 315,189 square meters.

As of the Latest Practicable Date, we were not aware of any actual or contemplated actions, claims or investigations by any relevant governmental authorities or third parties against us with respect to the lack of building ownership certificates for our buildings in use. On this basis and having considered confirmations from the relevant local governmental authorities and our PRC Legal Advisor's advice, our Directors believe that the lack of such relevant certificates will not, individually or in the aggregate, materially affect our business and results of operation.

We have implemented internal control measures to ensure our compliance with property laws and regulations. See " — Risk Management and Internal Control."

Leased Properties

As of the Latest Practicable Date, we leased 50 properties with an aggregate gross floor area of approximately 193,444 square meters for our office space and warehouses across China. Our leases generally have a term ranging from one to ten years. We are generally allowed to terminate lease agreements with a prior notice, which provides us with operational flexibility, albeit usually at the cost of forfeiting deposits and/or paying a termination fee.

Title Defects

As of the Latest Practicable Date, 23 of our leased properties in China that are used as warehouses and office space with an aggregate gross floor area of approximately 13,259 square meters were subject to potential title defects, representing approximately 6.9% of the total gross floor area of our leased properties in China. The lessors of such leased properties had not provided us with the relevant title ownership certificates for the leased properties or proof of authorizations from the property owners to sublease the properties to us. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any safety issues or disputes with respect to these defective leased properties.

As advised by our PRC Legal Advisor, without ownership certificates or proof of authorizations from the property owners, our use of these defective leased properties may be affected by third parties' claims or challenges against the lease rights. In addition, if the lessors do not have the requisite rights to lease these defective leased properties, we may be required to vacate these defective leased properties and relocate our office space and warehouses. If we were ordered to evacuate from these defective leased properties, we estimate to complete the relocation within half to two months, without incurring material related loss, which could result in an aggregate cost of approximately RMB0.3 million, based on the currently available information and to our best knowledge. However, in the event that we are unable to continue using these defective leased properties, based on the advice of our PRC Legal Advisor, we, as the tenant, will not need to continue to pay the rents. Additionally, it is the lessors' responsibility to provide the title ownership certificates or proof of authorization from property owners for the entry into the leases, and, as a tenant, we will not be subject to any administrative punishment or penalties in this regard. These statutory protections significantly mitigate our risks arising from these defective leased properties in the event that the legal owners of the properties claim for vacation. See also "Risk Factors — Risks Relating to Our Business and Industry — We may not be able to fully control our leasehold interest in these premises, or renew our current leases or locate desirable alternatives for our leased premises."

Having considered the foregoing, our Directors believe that these title defects described above will not, individually or in the aggregate, materially affect our business and results of operation, on the grounds that: (i) during the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, our leases with respect to these defective leased properties had never been challenged by any third parties, (ii) given that a substantial portion of our landlords are sizable commercial real estate developers, we believe the risk that we are required to vacate and relocate from these premises is remote, (iii) considering these defective leased properties are geographically dispersed across China under the jurisdiction of different local governmental authorities, we believe it is unlikely that we would be at the same time subject to claims of rights from various third parties or required by the governmental authorities to relocate with respect to a significant number of these defective leased properties, and (iv) we have enhanced our internal control measures and procedures to prevent the leasing of properties with title defects.

Lease Registration

Our 50 leased properties are required by the applicable PRC laws and regulations to be registered and filed with the relevant real estate administration bureaus in China, among which 38 had not been so registered or filed as of the Latest Practicable Date. This was because the relevant lessors did not provide us with the necessary documents for us to register the leases. These 38 properties have an aggregate gross floor area of approximately 125,312 square meters, accounting for approximately 64.8% of the total gross floor area of our leased properties in China. As advised by our PRC Legal Advisor, failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements. However, the relevant PRC authorities may impose a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease, and the aggregate amount of maximum fine will be approximately RMB380,000. See also "Risk Factors — Risks Relating to Our Business and Industry — We may not be able to fully control our leasehold interest in these premises, or renew our current leases or locate desirable alternatives for our leased premises."

Having considered the foregoing, our Directors believe that the non-registrations of leases described above will not, individually or in the aggregate, materially affect our business and results of operation, on the grounds that: (i) no penalty had been imposed on us for our failure to register and file the relevant lease agreements during the Track Record Period and up to the Latest Practicable Date, (ii) we were advised by our PRC Legal Advisor that, if the lease registration can be completed within the prescribed time limit ordered by the competent governmental authorities, the risk of governmental authorities imposing a material penalty on us with respect to these leased properties is remote, (iii) we have designated a dedicated team to work on the lease registration by proactively communicating with the lessors to obtain their cooperation and collect the application documents for the relevant lease registration, and (iv) we have enhanced our internal control measures and procedures to prevent re-occurrence of such non-compliance incidents.

INTELLECTUAL PROPERTY

We regard our patents, copyrights, trademarks, domain names, know-hows, proprietary technologies, trade secrets and other intellectual property rights as critical to our business operations. As of the Latest Practicable Date, we had registered two software copyrights, five copyrights, 174 patents, 1,031 trademarks and 44 domains in China. In addition, we had submitted applications for 11 patents and 112 trademarks as of the Latest Practicable Date.

We rely primarily on a combination of patents, copyrights, trademarks, trade secret and unfair competition laws and contractual rights, such as confidentially agreement, to protect our intellectual property rights. We clearly state all rights and obligations regarding the ownership and protection of intellectual properties in all employment agreements and commercial agreements we enter into. In addition, we have taken the following key measures to protect our intellectual property rights: (i) implementing a set of comprehensive internal policies to establish robust management over our intellectual property rights, (ii) deploying a special team to guide, manage, supervise and monitor our daily work regarding intellectual properties, (iii) timely registration, filing and application for ownership of our intellectual properties, and (iv) engaging professional intellectual property service providers.

We intend to protect our technology and proprietary rights vigorously, but there can be no assurance that our efforts will be successful. During the Track Record Period and as of the Latest Practicable Date, we had not been subject to any material intellectual property infringement claims and/or suffered any material infringement of its intellectual property rights by third parties (including counterfeiting issues). Nevertheless, third parties may from time to time initiate litigations or claims against us alleging infringement of their proprietary rights, or declaring their non-infringement of our intellectual property rights. See "Risk Factors — Risks Relating to Our Business and Industry — We may not be able to protect our intellectual property rights, and our ability to compete effectively may be harmed if our intellectual property rights are infringed by third parties" and "Risk Factors — Risks Relating to Our Business and Industry — We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business."

INSURANCE

We maintain regular property insurance. However, the insurance may not be able to cover all potential injuries to our equipment and facilities, death or losses due to fire, earthquake, flood or any other disaster in China. Consistent with customary industry practice in China, we do not maintain business interruption insurance, nor do we maintain key-man life insurance. We believe our insurance policies as a whole are in line with the general market practice and comply with the relevant rules and regulation in China. See "Risk Factors — Risks Relating to Our Business and Industry — We may not have sufficient insurance coverage to cover our potential liability or losses."

EMPLOYEES

As of December 31, 2022, we had 10,976 full-time employees. The following table sets forth the number of our full-time employees by function as of December 31, 2022.

Function	Number of Employees	% of Full-time Employees
Production and operation	5,831	53%
Branding and marketing	4,060	37%
Product development and quality control	195	2%
General and administrative	890	8%
Total	**10,976**	**100%**

Our success depends on our ability to attract, retain and motivate qualified employees. We recruit employees primarily through on-campus job fairs and online channels, including our corporate website and third-party employment websites. We believe we offer our employees competitive compensation packages and an environment that encourages self-development and, as a result, we believe we have been able to attract and retain qualified employees and maintain a thriving team.

In addition, we place strong emphasis on providing trainings to our employees to enhance their professional skills, understanding of our industry and workplace safety standards, and appreciation of our corporate values, especially our unwavering commitment to product quality and food safety as well as satisfying consumer services. We 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 conducts. We also design and offer targeted training programs for employees at various positions. For instance, for staff at quality control department, we provide both internal and external trainings on topics such as food safety and physicochemical analysis.

As required by PRC laws and regulations, we participate in housing fund and various employee social insurance plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans. We are required under PRC laws and regulations to contribute to employee social insurance plans at specified percentages of the salaries, bonuses and certain allowances of our employees.

We believe that we maintain respectful relationship with our employees. We had not experienced any material labor disputes or any difficulty in employee recruitment during the Track Record Period and up to the Latest Practicable Date.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Corporate and Sustainability Governance

We are fully aware of our responsibilities toward the society and the natural environment. We strive to elevate the standard of living, wealth and quality of life in the local communities. As a corporate citizen, we demonstrate our strong ESG commitment by alleviating any environmental damage that may be caused by our commercial activities as well as by safeguarding our community through various social responsibility initiatives.

In order to achieve a sustainable and high-quality development, our Board of Directors has adopted a comprehensive policy on environmental, social and governance responsibilities (the "**ESG Policy**"), which sets forth our ESG strategic goals and provides ESG related practice guidance for our daily operations. The management and supervision of environmental, social and governance ("**ESG**") matters is an important part of our corporate governance. Accordingly, we have formed a three-layer ESG governance structure (namely governance layer, management layer and executive layer) in accordance with external regulatory requirements and our own operating procedures. We will also issue annual ESG report to promulgate our efforts and achievements in the ESG arena.

Our Board has the overall and collective responsibility to ensure an effective ESG risk management and internal control mechanism with periodic review on its effectiveness in safeguarding our Group's assets and Shareholders' interests. Enterprise risk assessment will be conducted annually to evaluate the current and potential risks in the area of businesses where we operate, including but not limited to the risks arising from ESG and climate-related matters. Our Board will continuously assess or engage qualified independent third parties to evaluate the risks in our operations and to review our Group's existing risk management strategy, metrics and targets as well as internal control systems. Any improvement measures will be incorporated and implemented to manage and mitigate such risks identified. See " — Risk Management and Internal Control" for further details of our risk management and internal control policies, especially the measures related to anti-money laundering, anti-bribery and anti-corruption.

To better implement our ESG policies and measures, we have established an ESG Committee which comprises representatives from our Board and is chaired by our CEO. Our Directors consider that establishing and implementing sound ESG principles and practices will increase the value of our Company and encourage long-term return to our stakeholders. Our Group will have governance measures in place to monitor and collect ESG-related data to prepare disclosure in compliance with requirements of the

Environmental, Social and Governance Reporting Guide ("**ESG Reporting Guide**") in accordance to Appendix 27 of the Listing Rules, upon the Listing or when appropriate. To ensure the effectiveness of our ESG risk management measures and internal control systems, our ESG Committee is responsible for overseeing the formulation and reporting of our ESG strategies and determining the ESG-related risks. In addition, we intend to, among others, identify the material ESG areas, discuss with our key stakeholders regarding the material ESG areas identified and discuss among our management to ensure all material ESG areas which are important to our business operation and development are reported and comply with the ESG Reporting Guide.

At the management level, we have established an ESG Executive Committee to assist the ESG Committee in formulating and implementing ESG-related policies and procedures. Furthermore, ESG executive teams from each brand are established under the ESG Executive Committee to execute and implement ESG-related work in our day-to-day operations.

We have engaged a reputable consulting firm to assist our ESG management team in conducting a comprehensive ESG diagnosis and review on our business operations. According to their professional advice, we have developed our ESG scope and enhancement plan.

Materiality Assessment and Priority Setting

In the context of the rapidly changing market and emerging stakeholder expectations, we strive to position ourselves as a leader in ESG performance in China's baijiu industry through identifying risks and opportunities, balancing and addressing stakeholders' interests, and making informed decisions. We conducted a materiality assessment to identify ESG topics that are material to us, from which we are able to prioritize ESG aspects and strategize our action plan.

We identified important topics with reference to HKEX, SASB and MSCI standards, as well as benchmarking with leading domestic and foreign industry players. We also engaged selected internal and external stakeholders such as consumers, local suppliers, government parties and shareholders via interviews to determine the perceived importance of those identified ESG topics.

We take both internal and external materiality assessments into account. The ESG Executive Committee leads the internal materiality assessment by assessing and determining the materiality of each provision in the ESG Reporting Guide. The internal materiality assessment takes into consideration factors including but not limited to the key company values, policies, strategies and objectives; direct financial impact; ESG issues and metrics of concern to internal stakeholders; company's core competencies and strengths; reputational risks and opportunities; and key issues in the baijiu industry. The external materiality assessment takes into account ESG issues and metrics of interest from external stakeholders, key ESG issues of interest from our competitors, policy guidelines, international agreements or voluntary agreements that are of strategic importance to the company and ESG risks or opportunities identified by qualified independent third parties after in-depth investigation.

Based on our evaluation as well as internal and external inputs, we identified certain material ESG topics. Our material topics are closely aligned with our ESG strategic priorities. The results from our materiality exercise enable us to address stakeholder expectations and develop our ESG strategies with better priority setting and more efficient resource allocation.

Environmental Sustainability

We are subject to different local and national environmental legislation and regulations. We believe that the overall regulatory climate is becoming increasingly strict with respect to environmental issues and expect this trend to continue in the future. Thus, we strictly adhere to our environmental policy to meet or surpass applicable standards and legislation regarding the emission of gas and liquid effluents, the disposal of solid waste, noise levels and contamination of premises. All of our operations at our *Zhen Jiu*, *Li Du* and *Xiang Jiao* distilleries met the applicable environmental standards and climate-related policies during the Track Record Period and therefore we did not incur any material cost in connection with compliance with environmental laws and regulations or any remediation efforts. However, to further improve our emission standard of wastewater and exhaust gas, we voluntarily replaced coal-fired boilers with natural gas boilers and upgraded the sewage treatment systems during the Track Record Period, incurring annual cost of RMB7.5 million, RMB3.3 million and RMB8.1 million in 2020, 2021 and 2022, respectively. While not all operational and financial impact from the future implementation of various ESG initiatives can be quantified, the following aspects of potential impact are selected and estimated.

As for carbon emission reduction, together with the photovoltaic service provider, we are currently in the process of designing and refining our construction plan and we aim to establish solar panel installment on the roof of our production facilities at *Zhen Jiu*, *Li Du* and *Xiang Jiao* in the near future. Assuming the areas with solar panels installed is approximately 220,000 sqm, the use of photovoltaic power can roughly save electricity costs by RMB1.5 million per year and can further ensure the stability of electricity supply in peak seasons. On the other hand, to further increase the percentage of renewable energy in our energy mix, the purchase of renewable energy certificates will likely increase our annual cost by RMB0.5 million, assuming a total of 10,000 certificates to be purchased annually.

As for green packaging, with *Zhen Jiu*'s aim to replace ceramic bottles with glass bottles in certain product series in 2023, the substitution can potentially save procurement cost by approximately RMB5.4 million, assuming 380,000 ceramic bottles are to be replaced. On the other hand, with *Li Du* and *Xiang Jiao*'s aim to replace foam with pearl cotton, which is recyclable and more eco-friendly, the packaging cost will be likely to rise by RMB0.4 million per year.

Water Stewardship

Water supply and water quality is of significant importance to our baijiu production. As a responsible baijiu company, it is our role to work towards water stewardship throughout our operations and make every drop of water count. We have updated the water related measures in our environmental policy emphasizing our commitment to minimizing the environmental impact of wastewater discharge, reducing water usage and protecting the ecosystem of watersheds in which we operate.

We have set stringent criteria for wastewater discharge, enabling us to fully meet or surpass local and national regulatory standards. To control water pollution from its source, we have implemented a diversion system to separate rainwater, production wastewater and domestic wastewater. Each of our production facilities is equipped with wastewater treatment plant(s). We aim to further reduce chemical oxygen demand (COD) and ammonia nitrogen in sewage in order to return all wastewater to the environment in a most eco-friendly way.

To unlock higher water use efficiency, we have implemented multiple measures including assigning designated personnel to restrain water wasting as well as setting water use efficiency as a KPI for each production facility. Particularly, at our *Zhen Jiu* production facility, the water-cooling system was replaced by air-cooling in 2021, which saved over 390,000 tons of water in 2021. If future capacity expansion is taken into account, the switch from water-cooling system to air-cooling could help our *Zhen Jiu* production facility save around 4,000,000 tons of water in 2025.

Against a 2021 baseline, we aim to continuously improve water use efficiency with the goal to save an additional 200,000 tons of water in 2025 by implementing supplementary measures including the recycling of cooling water and bottle-cleaning water, utensils water-saving transformation and overflow pipe system water-saving transformation. Our total water usage was 1,306,798 tons in 2021, resulting an average water use efficiency of 118 tons of water per ton of base liquor, which is expected to be improved to around 114 tons of water per ton of base liquor in 2025.

Beyond our operation, we attach great importance to the protection of local ecosystem. In partnership with local stakeholders, we have kept our water stewardship efforts by engaging in multiple watershed protection programs, such as riverway cleaning activities and ecological reconstruction of the rivers in the Zunyi region. See " — Distillery Development and Sustainable Construction."

Waste Management

To minimize the environmental impact of solid waste and waste gas, we have updated the waste management measures in our ZJLD Environment Policy for compliance with regulatory requirements on waste discharge while seeking for continuous reduction on environmental pollution or waste of resource.

Measures we have taken as solid waste management include separated storage of hazardous waste, sale of vinasse to third parties for reutilization, recycling and reuse of pit mud in plants and dewatering sludge mechanically so that it can be landfilled or sent out as agricultural fertilizer. Furthermore, we actively take actions to mitigate the environmental impact of exhaust gas, including switching coal-fired boilers to natural gas boilers, equipment of bag dust collectors and cyclone dust collectors, installment of oily smoke purification devices, etc. Our waste gas emission complies with national standards. To further reduce solid waste, one of our near-term plans is to conduct experiments and tentatively replace disposable plastic pit covers (窖帽) with covers made from stainless steel. To further track and record the amount of exhaust gas, one of our near-term plans is the installation of exhaust gas monitoring systems for better assessment of the total discharge amount and understanding the corresponding environmental impact.

Climate Change and Energy Consumption

As our business relies on high-quality agricultural commodities such as sorghum and rice, water resources and energy, our operation and value chain are closely tied to the natural environment, which is directly impacted by climate change. An increase in frequency and intensity of extreme weather and natural disasters caused by climate change may have a negative effect on agricultural productivity which in turn leads to decreased quality, decreased availability or less favorable pricing for certain agricultural commodities necessary for our production. Recognizing the urgent need for climate action, we released our first climate policy in 2022, outlining our climate change mitigation and adaptation strategy. Based on the climate policy, we are committed to achieving 20% reduction in carbon emission intensity of our direct operations (scope 1 & 2) by 2025 against a 2021 baseline. Our total carbon emission (scope 1 and 2 with major energy consumption including natural gas, electricity and diesel taken into account) was 35,115 tons in 2021, resulting an average carbon emission intensity of 3.2 tons per ton of base liquor and we are committed to further decrease the intensity by 0.6 ton per ton of base liquor in 2025.

To fulfill our climate commitment, we adopt a range of energy reduction and carbon reduction measures. All our production facilities have converted coal-fired boilers to natural gas boilers. We have gradually deployed energy-efficient production facilities and electric forklifts, reduced standby time of machines, adjusted transformers to distribute the electricity load more rationally and adopted frequency conversion control to improve electricity consumption efficiency. We are also in the process to phase out inefficient equipment which will be substituted by high energy-efficient facilities. In addition, our *Zhen Jiu* production facility has taken the initiative of odd-even private car license plate admission regulation and encouraged employees to take commuter bus; our *Li Du* production facility used solar energy to power streetlights within the production facility. We aim to continuously increase the percentage of renewable energy in our energy mix by installing solar panels on the roof of our production facilities and utilizing photovoltaic power, purchasing green electricity and/or renewable energy certificates, participating in carbon offset programs and other applicable initiatives.

We have set up the energy assessment system and regularly carry out analysis on our electricity and gas consumption, enabling us to implement necessary and efficient measures to track the progress towards our carbon reduction goal. The following table sets forth our major energy consumption data for the periods indicated:

	2020	**2021**	**2022**
Electricity (kWh)	7,494,238	11,791,980	19,064,686
Electricity consumption intensity (kWh/ton*)	833	1,066	681
Gas (m^3)	7,820,354	13,928,629	28,820,194
Gas consumption intensity (m^3/ton*)	869	1,259	1,030

Note:

* *Base liquor yield in tons*

Sustainable Packaging

In the baijiu industry, products with luxury packaging tend to enjoy competitive advantage to a certain extent. We are fully aware the fact that excessive packaging will also have a negative externality on the environment, and we are determined to initiate a series of enhancement plans and strive to lead sustainable packaging practice in the baijiu industry. We have updated our packaging policies to clarify the terms of packaging management and set a strategic target of using at least 95% sustainable packaging materials (by weight) by 2025, taking the industry lead in sustainable packaging.

We used 47,206 tons of packaging materials in total in 2022, of which approximately 45,912 tons are sustainable packaging materials, representing approximately 97% of our total packaging material usage by weight. Actions we have taken to maintain our sustainable packaging commitment include but are not limited to replacing foam with pearl cotton which is recyclable and more eco-friendly, changing some popular products' bottle material from ceramic to glass, and prioritizing cooperation with packaging suppliers who meet national environmental protection requirements. At the same time, our distilleries are working with suppliers to develop packaging materials that are made up of bio-based eco-friendly materials and such packaging which will be launched in the near future.

In addition, to further reduce the excessive product packaging, we have launched a range of products that are outer-packaging-free, leading the industry's sustainable packaging practice. In addition, for *Li Du*'s core product Li Du Sorghum 1308, we presented external packaging free option which offers moderately price discount to encourage environmentally friendly consumption. To further reduce our packaging material consumption, we are currently under the process of product sampling and we plan to introduce a wider range of products that are outer-packaging-free to carry out our material reduction practice in the near future.

Although promoting bottle recycling has always been a challenge in the baijiu industry, we are determined to pioneer in the bottle recycling arena. We have generated various reuse ideas for our bottles, for example when consumers return empty bottles to certain designated stores, such stores will revive those bottles to creative household products such as tea cans, vases and other cultural decorations for free.

Distillery Development and Sustainable Construction

In response to the increasing demand for our products, we are proactively building additional sites to further expand our production capacity. We take a sustainable approach when designing and constructing new production facilities. During designing phase, we strive to use the most environmentally friendly types of materials and equipment to minimize environmental impact. During the construction, we require our contractors to develop guidelines to minimize energy consumption and the influence on the environment and regularly monitor the construction process to ensure that our guidelines are duly adhered to.

The design and construction of our *Zhen Jiu* (Moutai Town Shuang Long) (茅台鎮雙龍) production facility embody our commitment to a sustainable future. *Zhen Jiu* (Moutai Town Shuang Long) (茅台鎮雙龍) production facility is located in Guizhou's Zunyi region, where all of its rivers are affiliated to Yangtze River Basin. Home to more than 3,000 species of vascular plants, 44 species of national protected animals and dozens of fish species, the Zunyi region is a key to the biodiversity of the entire Yangtze basin. Fully aware of the importance of ecological balance, we aim to create ecological value through our Zhenjiu Manor project by maximizing our environmental conservation efforts. In the design phase, we have taken necessary sewage treatment plant and water recycling system into consideration. The disposal facilities for domestic waste and sewage will take into consideration the improvement of the living environment surrounding our site. We select eco-friendly building materials and take the prefabricated construction system approach which reduced the work of cast-in-situ concrete by 80% and abated significantly secondary pollution. To minimize our energy consumption, all the streetlights will be powered through solar energy and we purchased the highest energy-efficient equipment whenever possible. Once completed, this ecological reconstruction project will benefit the local community as well as downstream ecosystem.

To ensure our distillery development and construction are continuously of high standard, *Zhen Jiu* has further implemented Green Factory Development Plan, promoting infrastructure intensification and cleaner production. Our relentless effort was also recognized by Department of Industry and Information

Technology of Guizhou Province; in 2022, *Zhen Jiu* was elected in the Guizhou Green Manufacturing List, inspiring us to continue to promote sustainable construction and green operations.

Social Sustainability

We believe social sustainability for a company is more than just a sought-after business trend for us to follow. Rather, it promotes the health, safety, and wellbeing of our employees, consumers, stakeholders, and members in the community and will eventually make an extensive and profound impact on our business. Therefore, we aim to continuously improve our social sustainability and strive to lead our industry in this regard. Examples of our achievements and initiatives in the area of social and community responsibility include the following:

Responsible Marketing and Smart Drinking

While we appreciate the power of our brands to enrich the experience of life, our brand culture values tasting wisely and responsibly. We aim to contribute to the United Nations Sustainable Development Goal of good health and well-being by strengthening the prevention of harmful use of alcohol. Thus, we strictly comply with applicable laws and regulations to ensure our marketing practices are responsible. In addition, we strictly adhere to our responsible marketing policy, which clearly stipulates the application and review procedures when displaying advertisements and explicitly prohibits certain actions or wording throughout our marketing practices.

We place warning labels on all our baijiu products to meet regulatory requirements and to promote responsible drinking. Additionally, we have requested age verification on all of our major online platforms including websites and self-built mini apps, etc. Furthermore, we scrutinize our marketing strategies, leaning to select channels and media with higher rate of legal drinking age communities (e.g., airport) and promoting premiumization as premium and above baijiu products targeted at more mature consumers. Our corresponding personnel in distilleries conducts regular content check on advertisements to prevent misleading or exaggerated claims.

We have launched several smart drinking campaigns to educate the public about the harm of underage drinking and the danger of drinking after driving, and to promote a more enjoyable drinking experience for the public. We also intend to organize more education events by cooperating with local government and other non-governmental organizations in the future to fulfill our social responsibility.

We managed to prevent harmful use of alcohol products sold through our distribution network through various measures. One of the measures we have adopted is to add responsible drinking hints on our online and offline branding materials, which are shared by distributors with our end consumers. We tailor our posters as well as marketing scripts to prevent drunk driving in the baijiu tasting events that we regularly hold.

Supply Chain Management

Our suppliers mainly include crop suppliers, bottle suppliers and packaging materials suppliers, which could all make profound impact on the safety and quality of our products as well as our overall brand image. Therefore, we have stipulated supplier qualification policy, based on which we select our suppliers carefully according to their historical quality performance and we have conducted comprehensive incoming quality control (IQC) on every batch of raw material.

In addition, we also exert impact on our suppliers to comply with relevant environmental and social regulations. We strictly adhere to our responsible purchasing policy which stipulates the environmental and social risk management mechanisms regarding our suppliers (with areas covering supplier onboarding, supplier audit and regular evaluation). We have developed an evaluation mechanism to assess our suppliers' ESG compliance status on an annual basis. In our assessment form, issues related to use of child or forced labor as well as any incidence of major environmental non-compliance will cause immediate termination of business cooperation with the suppliers. Besides, our supplier assessment form also takes other environmental and social assessment items into account, including their practice in energy saving, waste management, labor law compliance and work safety. The score of ESG assessment for each supplier will be linked to supplier's overall annual performance and an unsatisfactory ESG score will negatively impact the supplier's future contract renewal. We have also included anti-corruption clauses in our agreements with our suppliers to prevent collusion and corruption.

Rural Revitalization and Poverty Alleviation

As a leading business in the communities in which we operate, we are obligated to contribute to rural revitalization and poverty alleviation in our community. We have also been sourcing and purchasing agricultural materials locally, thereby supporting farmers in the surrounding low-income areas to grow crops with greater confidence and assurance.

With the growth of our business, we have driven the development of over 253,000,000 m^2 of red tassel sorghum planting base in Guizhou province. We launch the initiative of "company + planting base + agricultural cooperatives + farmers" order model to effectively reduce costs along the supply chain. In the future, we hope to boost rural employment by 50% and double the upstream agricultural procurement by 2025, compared to a 2021 baseline.

In addition, we have aided the government in the development and renovation of village roads and infrastructure. We also provided over RMB59,900 in total, in the form of monetary and material donations, to promote poverty reduction in local poverty-stricken areas from 2020 to 2022.

Our accomplishments in promoting rural revitalization and poverty alleviation practices have been widely acknowledged. At the annual meeting of the National Governance Summit on December 1, 2022, directed by the People's Daily and organized by the People's Forum Magazine, our endeavor of high-quality contribution to rural revitalization was selected as one of the ten exemplary cases for rural revitalization, making us the only baijiu company that received this honor.

Moreover, distillery ecotourism is also one of our top priority initiatives. As national 4A-level scenic attractions, we proactively invite nationwide consumers to visit our distilleries and engage them in a variety of immersive experiences to boost local tourism and encourage local economic development. For the old *Li Du* distillery, which is also a cultural heritage from the Yuan Dynasty, the tours also encourage the promotion of the traditional Jiangxi culture.

Charity and Disaster Relief

We are eager to contribute to the community, and we respond swiftly to natural disasters and pandemics with many donations. From 2020 to 2022, we provided over RMB5,000,000, in the form of monetary and material donations, to flood-affected cities and over RMB8,100,000, in the form of monetary and material donations, to pandemic-prevention efforts in communities where we operate.

Education Support

We appreciate the value of children's education for the purpose of alleviating poverty and contributed in a variety of ways. We already donated more than RMB22,000,000 to Hunan Youth Development Foundation and China Charity Federation since 2018 to subsidize students from low-income families to attend college. Since 2015, we also contributed a total amount of RMB3,000,000 to the Jiangxi Lidu Education Fund, helping exceptional students from rural areas to higher education.

Workplace Safety and Occupational Health

Our employees' safety and health are our top priority. We have complied with applicable Chinese laws and regulations on workplace safety and occupational health in every respect. To ensure our employees' safety and health, we have also stipulated multiple operational procedures and safety standards, including but not limited to fire prevention, occupational health, machine operation, special equipment operation and handling of hazardous chemicals.

We have conducted numerous practices in an effort to further protect our employees from work injury or occupational health diseases, including:

- *Safety committee:* a safety committee comprised of senior management and workshop group leaders has been established at each production facility to oversee production safety.

- *Risk identification:* at each production facility, we have identified safety risks along production processes and developed responsive measures, such as the use of a dust extractor, fall protection netting, and personal protective equipment, etc.

- *Rectification:* with regard to work-related injury, we would conduct an analysis to identify the underlying causes and conduct remediation and preventive work accordingly.

- *Check-ups:* in addition to routine check-ups for all employees, we provide annual occupational medical check-ups for employees whose work is in high-risk category.

Additionally, to mitigate risks along our production processes, we have adopted multiple precautionary measures in line with industry best practices. In particular, to mitigate the risk of dust fire, we conduct lighter check to all employees at the entrance and place dust removers in the qu-making facilities. To mitigate the risk of dust inhalation, we require all workers in the corresponding facilities to wear face masks and provide regular occupational health check-ups to all of our frontline employees. To mitigate the risk of hits by bridge crane, we have taken measures to ensure that bells ring whenever a bridge crane is operating and require that all workers stand aside when a bell rings. To mitigate the risk of toxic hazard under fermentation pit in the fermentation and distillation process, we have applied air vent fans to ventilate the pits and conducted oxygen concentration tests before allowing workers to step down into the pits. To mitigate the fire hazard and mechanical injury in the storage, blending and bottling process, we have adopted various fire safety equipment as well as personal protective measures in the production facilities, including fire extinguishers, body electrostatic dischargers and numerous posters showing standard operating procedures for various machines. Specifically, at *Li Du*, each worker is required to wear a special breathable helmet in the workshops or warehouses, leading industry's best practice.

We used Office Automation (OA) system to report and track workplace accidents. We have not experienced any workplace fatalities during the Track Record Period and up to the Latest Practicable Date. In 2020, 2021 and 2022, the number of workplace accidents was 30, 78 and 110, respectively. The increase in the number of workplace accidents was primarily because we expanded our production capacity during the Track Record Period and the total number of our employees increased accordingly. According to Frost & Sullivan, the number of our workplace accidents as a percentage of the total number of our employees during the Track Record Period was within industry normal range of workplace accident rate. Common workplace accidents include injuries resulting from overexertion, slippery and falls. While making sure each employee in the incident is treated immediately and appropriately, we have adopted multiple remediation measures to mitigate the related hazards, including thoroughly performing incident analysis, optimizing or re-designing machines to better prevent injuries.

Training and Development

We believe that our employees are our most valuable asset, and we strive to provide them with career related training and advancement opportunities. We provide comprehensive training courses to all employees, including new hires and senior management, on topics such as workplace safety, product and food safety, corporate culture, and anti-corruption, in addition to sales skills, negotiation skills, 6S management skills, and machine standard operating procedures, etc.

We have also established a clear path for internal promotions, allowing skilled and capable employees to advance to management positions. We have developed a evaluation system named Five Star Promotion (五星通關). Under such system, employees who have earned five stars through performance evaluation, pertinent training, and knowledge testing are eligible for rapid advancement regardless of their age or background.

Engagement and Wellbeing

Our employees are compensated with a base salary, bonuses, and other benefits. In comparison to the local average, we have provided competitive salaries to all employees, including front-line workers and sales personnel, as well as many non-monetary benefits. We have also established an employee care fund to assist workers who have experienced sudden financial hardship.

Diversity and Inclusion

We strictly adhere to our human resource management policy, which advocates inclusion, diversity, and equality within the Company. We have also established a caring committee for female employees in each brand to protect their rights and benefits. We strive to continuously provide better support to the female community through a variety of means, including but not limited to adding more lactation rooms in our workplaces, hosting more seminars for all employees featuring inclusiveness and gender equality and offering more training courses specifically for our female employees. We believe with our best effort, we can create a more female-friendly workplace and thus, increase their participation.

Beyond all our diversity and inclusion initiatives mentioned above, some of our job responsibilities have been redesigned to accommodate workers with certain disabilities. We also do our best to provide employment opportunities to veterans.

AWARDS AND RECOGNITIONS

We had received a number of awards and recognitions for our iconic products from renowned international organizations, including San Francisco World Spirits Competition and the Spirits Selection by Concours Mondial de Bruxelles, for over twenty times from 2015 to 2022.

- Zhen 30 (珍三十) Series was awarded the Double Gold Medal at San Francisco World Spirits Competition in 2022 and the Grand Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles in 2021, respectively. In addition, Zhen 15 (珍十五) Series was awarded the Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles for five times from 2017 to 2022, and won two Gold Medals at San Francisco World Spirits Competition in 2022.

- Li Du Sorghum 1955 (李渡高粱1955) and Li Du Sorghum 1308 (李渡高粱1308) won the Grand Gold Medals from the Spirits Selection by Concours Mondial de Bruxelles in 2015 and 2019, respectively.

- Xiang Jiao Red Diamond (湘窖酒•紅鑽) was awarded the Grand Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles in 2018.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we had not been a party to, and were not aware of any threat of, any legal, arbitral or administrative proceeding, which, in our opinion, would likely have a material and adverse effect on our business, financial conditions or results of operation. We have been, and may from time to time, be subject to various legal claims and proceedings arising in the ordinary course of our business. Litigation or any other legal proceeding, regardless of the outcome, is likely to result in substantial costs and diversion of our resources, including our management's time and attention. For the potential impact of legal proceedings on us, see "Risk Factors — Risks Relating to Our Business and Industry — We are exposed to the risk of litigation, claims, disputes and regulatory compliance issues, which may cause us to pay significant damage compensations and incur other costs."

Our Directors confirm that we had complied with the relevant PRC laws and regulation in all material respects and except as disclosed in this section and in the "Risk Factors" section, we had obtained all requisite licenses, approvals and permits from relevant authorities in China during the Track Record Period and up to the Latest Practicable Date.

Social Insurance and Housing Provident Funds

Background and Reasons for Non-compliance

During the Track Record Period, we had not made social insurance and housing provident fund contributions for some of our employees in full in accordance with the relevant PRC laws and regulations. The shortfall of social insurance and housing provident fund contributions amounted to approximately RMB2.5 million, RMB15.7 million and RMB14.7 million in 2020, 2021 and 2022, respectively. We were unable to make full social insurance and housing provident fund contributions for the relevant employees primarily because, among other reasons, (i) consistent with the industry norm, our labor force is highly mobile, which has made it impracticable for us to make such contributions in time for the relevant employees that left our Group shortly after on-boarding, (ii) due to the lack of indepth knowledge of the relevant requirements of applicable PRC laws and regulations, which may vary from region to region across China, and (iii) many of our employees were not willing to bear the costs associated with social insurance and housing provident funds. In addition, we engaged third-party human resources agencies to pay social insurance and housing provident funds for some of our employees during the Track Record Period due to certain off-site work arrangements with these employees.

Potential Legal Consequences

As advised by our PRC Legal Advisor, pursuant to relevant PRC laws and regulations, the under-contribution of social insurance within a prescribed period may subject us to a daily overdue charge of 0.05% of the delayed payment amount. If such payment is not made within the stipulated period, the competent authority may further impose a fine of one to three times of the overdue amount. Pursuant to relevant PRC laws and regulations, if there is a failure to pay the full amount of housing provident fund as required, the housing provident fund management center may require payment of the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. The maximum potential penalties that we may be subject to for the shortfall of social insurance and housing provident fund contributions during the Track Record Period would be approximately RMB3.74 million.

Latest Status and Remedial Measures

As of the Latest Practicable Date, no administrative action or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance and housing provident fund contributions, nor had we received any order to settle the deficit amount. Moreover, as of the Latest Practicable Date, we were not aware of any material complaint filed by any of our employees regarding our social insurance and housing provident fund policy.

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

- We have enhanced our human resources management policies, which explicitly require social insurance and housing provident fund contributions to be made in full in accordance with applicable local requirements;

- We are in the process of communicating with our employees with a view to seeking their understanding and cooperation in complying with the applicable payment base, which also requires additional contributions from our employees;

- We have designated our human resources department to review and monitor the reporting and contributions of social insurance and housing provident fund on a monthly basis;

- We will keep abreast of latest developments in PRC laws and regulations in relation to social insurance and housing provident funds; and

- We will consult our PRC legal counsel on a regular basis for advice on relevant PRC laws and regulations to keep us abreast of relevant regulatory developments.

Our Directors are of the view that the above measures are effective and adequate in preventing non-compliance with respect to social insurance and housing provident funds. Based on the independent due diligence work performed by the Joint Sponsors, and having considered the work and procedures performed by the internal control consultant to the Company on its compliance management system in totality, nothing material has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to disagree with the aforementioned view of our Directors in any material respect.

In addition, we have consulted with and obtained confirmations from the relevant local governmental authorities covering substantially all of our employees that: (i) they acknowledge and accept the bases on which our social insurance and housing provident fund contributions were made; (ii) no administrative penalties had been imposed on us for the shortfall during the Track Record Period and up to the date of the consultation, and (iii) they would not initiate any regulatory action to compel us to make supplementary contributions or impose any penalty on us. Our PRC Legal Advisor has advised us that such local governmental authorities are competent to provide the foregoing confirmations.

Based on the foregoing, our Directors believe that such non-compliance would not have a material adverse effect on our business, results of operations or financial condition or the Global Offering, considering that: (i) we had not been subject to any administrative penalties during the Track Record Period and up to the Latest Practicable Date regarding our social insurance and housing provident fund policy, (ii) we were neither aware of any material employee complaints filed against us nor involved in any material labor disputes with our employees with respect to social insurance and housing provident funds during the Track Record Period and up to the Latest Practicable Date, (iii) as of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities requiring us to pay for the shortfalls or any overdue charges with respect to social insurance and housing provident funds, and (iv) as advised by our PRC Legal Advisor, considering relevant regulatory policies and the facts and the confirmations made by the relevant competent local governmental authorities stated above, in the absence of material employees' complaints, the likelihood that we are subject to collection of historical arrears due to our failure to provide full social insurance and housing provident funds contributions for our employees is remote. As a result, we had not made any provision for the shortfall in our social insurance and housing provident fund contributions during the Track Record Period and up to the Latest Practicable Date.

RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various risks during our operations. We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations. Our policies and procedures relate to managing our procurement, production, as well as monitoring our sales performance and product quality.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the Listing, we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish an Audit Committee to review and supervise our financial reporting process and internal control system. For the qualifications and experience of the committee members, see "Directors and Senior Management;"

- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;

- provide anti-corruption and anti-bribery compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against non-compliance in employee handbooks;

- organize training session for our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong;

- enhance our reporting and records system for production facilities, including centralizing their quality control and safety management systems and conducting regular inspections of the facilities;

- establish a set of emergency procedures in the event of major quality-related issues; and

- provide enhanced training programs on quality assurance and product safety procedures.

In addition to the risk management measures we had adopted as discussed above, we have identified certain potential risks that are crucial to our operations and we have adopted corresponding internal control measures to mitigate such risks.

Protection against Counterfeit Products

Our well-established brand recognition in China may attract imitators to produce counterfeit products without our authorization or using similar trademarks. Counterfeiting and imitation may divert our potential consumers from our own products. More importantly, counterfeiting or substandard products could significantly harm our reputation and brand image. See "Risk Factors — Risks Relating to Our Business and Industry — Incidents involving counterfeiting, tampering, adulteration, contamination or mislabeling, as well as adverse public or medical opinions about the health effects of consuming our products, could harm our business" for more details.

We endeavor to combat counterfeit products to protect our brand integrity. As of the Latest Practicable Date, we have registered 50 trademarks that are material to our business operations. For details, see "Appendix IV — Statutory and General Information." Our distributors are contractually required to preserve our reputation and brand integrity, and selling counterfeit products is strictly prohibited pursuant to the distribution agreements. We encourage consumers to report unauthorized uses of our brands or counterfeit products to us. We have also been enhancing consumer education by promoting our authentic products through various publicity channel, such as our official accounts on Douyin, Weixin and Weibo. Furthermore, we have dedicated a team to monitoring and handling counterfeiting issues. In the event we identify any counterfeit products, we may initiate legal actions and take other responsive measures based on the advice of intellectual property consultants and attorneys.

Anti-Bribery and Anti-Corruption

In order to maintain our reputation and integrity of our corporate governance, we have implemented anti-bribery and corruption policy which requires our employees to conduct business legally and ethically. Our anti-bribery and corruption policy prohibits our employees to offer unauthorized payment, such as bribes, kickbacks, or benefit to any third party, including government officers, customers, or suppliers, in order to secure or reward an improper benefit. They are also not allowed to accept or solicit any such unauthorized payment. Our anti-bribery and corruption policy also prohibits other misconducts, such as misappropriation and embezzlement, fraud or other illegal activities. Any violation of the policies could result in dismissal and financial fines.

Moreover, we also require our distributors, suppliers and other business partners to undertake anti-bribery commitment in writing that prohibits gifts, rebates, facilitation fees and other illegitimate conducts. Any breach of such commitment could result in termination of collaboration agreements and penalties as appropriate.

Property Laws and Regulations Compliance

With respect to our properties, we have implemented the following internal control measures to ensure our compliance with property laws and regulations:

- before we purchase any properties and enter into any new lease, our Directors and senior management will conduct enhanced due diligence to ensure there are no title issues and legal issues. The enhanced due diligence includes, among others, (i) examining the relevant land use right certificates and building title ownership documents; (ii) verifying such certificates and documents with the land administration authority and building administration authority and confirming the ownership; (iii) checking with building administration authority to ascertain whether any mortgage, charge or other security are attached to the building; and (iv) conducting site visits;

- we will obtain the requisite licenses and permits (including but not limited to land use right certificates and building ownership certificates) as and when required by the laws and regulations and follow the requisite procedures relating to construction and work completion of buildings;

- we will seek our PRC Legal Advisor's opinion on the issues relating to title of properties and compliance of property laws and regulations;
- we have established a set of policies and procedures for property purchase and leasing arrangements to enhance our internal approval process;
- for self-construction projects, we have established a set of policies and procedures to obtain relevant permits for acceptance, including but not limited to construction land use planning permit and construction project planning permit, construction permit; and
- our compliance department will monitor the implementation of the above measures and will check whether there is any non-compliance going forward.

Our Directors are of the view that the above measures are effective and adequate in preventing non-compliances with respect to relevant property laws and regulations. Based on the independent due diligence work performed by the Joint Sponsors, and having considered the work and procedures performed by the internal control consultant to the Company, nothing material has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to disagree with the aforementioned view of our Directors in any material respect.

Control of Third-party Settlement Arrangement

Background

Historically, as requested by certain of our distributors, individual customers and suppliers (individual or collectively, the "**Relevant Counterparty(ies)**"), our Group settled transactions with them through the accounts of third parties designated by these Relevant Counterparties (the "**Third-party Settlement Arrangement**"). During the Track Record Period, 3,477 distributors (including 2,092 distributors that are sole proprietorships), 134 individual customers and 142 suppliers settled transactions with our Group under the Third-party Settlement Arrangements. In 2020, 2021 and 2022, the aggregate amount of payment from designated third parties to our Group was RMB759.6 million, RMB1,761.4 million and RMB812.2 million, respectively, representing approximately 22.1%, 24.4% and 10.9% of the total payments received from all customers, respectively. During the same periods, the aggregate amount of payment made from our Group to designated third parties was RMB122.6 million, RMB639.2 million and nil, respectively, representing approximately 12.1%, 20.5% and nil of the total payments made to all suppliers, respectively. No individual Relevant Counterparty had made material contribution to our Group's revenue or cost during the Track Record Period.

During the Track Record Period, the third parties designated by certain of our Group's distributors primarily consisted of such distributors' (i) actual controllers, (ii) actual controllers' family members, (iii) employees, and (iv) sub-distributors. Meanwhile, our employees also settled payments by their personal accounts upon requests of individual customers and such employees also constitute the designated third parties of such individual customers. During the same period, our Group made payments to designated third parties of certain suppliers primarily including their (i) actual controllers, (ii) actual controllers' family members, and (iii) employees. Our Directors have confirmed that, none of the designated third parties of any distributors or suppliers during the Track Record Period is a connected person of our Group and such designated third parties are independent from each of our Group's Directors, senior management and Shareholders.

During the Track Record Period, (i) our Group had not proactively initiated any Third-party Settlement Arrangement or participated in other forms in any of such arrangement; (ii) our Group had not provided any discount, commission, rebate or other benefit to any of the Relevant Counterparties to facilitate or incentivize the Third-party Settlement Arrangement; and (iii) the pricing and payment terms of the agreements we entered into with the Relevant Counterparties were generally in line with those of customers and suppliers not involved in the Third-party Settlement Arrangement.

Our Group had ceased all Third-party Settlement Arrangement by June 30, 2022, other than settlements with (i) actual controllers of distributors and suppliers that are sole proprietorships, and (ii) distributors and suppliers who have provided a designation letter (the "**Designation Letter**") to the designated third parties on a case-by-case basis subject to prior written approval from our Group. From June 30, 2022 to the Latest Practicable Date, the aggregate amount of payment from designated third parties to our Group under the Third-party Settlement Arrangement was RMB451.5 million. Our Group considers that the cessation of arrangements did not have, nor will have, any material adverse effect on the business, operations and financial results of our Group. As advised by our PRC Legal Advisor, the Third-party Settlement Arrangement under (i) and (ii) are not in breach of mandatory requirements of current PRC laws and regulations.

Reasons for Utilizing Third-party Settlement Arrangement

The use of the Third-party Settlement Arrangement is primarily due to the following reasons:

(i) *Industry norm*: many of our Group' distributors and suppliers are small-sized private business in the form of sole proprietorship or small and medium-sized enterprises. As confirmed by Frost & Sullivan, for convenience purpose, it is not uncommon for the personal accounts of such distributors and suppliers' (a) actual controllers, (b) family members of the actual controllers, and (c) employees, to be used for corporate transaction settlements;

(ii) *Offsetting arrangement between distributors and sub-distributors*: as instructed by certain of our Group's distributors who were obligated to make payments to our Group under relevant distribution agreements, their sub-distributors would sometimes make payment directly to our Group on the distributors' behalf to offset the amounts they owe to the relevant distributors; and

(iii) *Requests during ordinary course of business for convenience*: (a) during periodic site visits for future order demand and current inventory inspection to distributors, our employees would discuss with distributors and assist with order placements needed through our Group's electronic system on site, while certain of our Group's distributors made payments to our Group via cash, Weixin or Alipay to the employees of our Group for convenience; and (b) when serving group purchase customers in the ordinary course of business, certain of our Group's employees were requested by the customers to use Weixin and Alipay accounts for settlement as it is more convenient.

Implications Relating to Third-party Settlement Arrangement

Our Directors believe that the Third-party Settlement Arrangement existed during the Track Record Period, to the best of our knowledge, has been recorded completely and accurately in our accounting books and records in all material respects and the Group has certain measures to manage this arrangement as following:

(i) *Prevention of fraud or money laundering*: to prevent fraud or money laundering activities, our Group implemented several know-your-customer procedures to have a comprehensive understanding of our distributors and suppliers. Further, our Group also conducted periodic business meetings with our distributors and suppliers to understand the nature of their business and business model. Based on above, the Company has no grounds, to believe that the distributors and suppliers are involved in fraud or anti-money laundering, nor would the Company has reason to believe that the relevant settlement involves proceeds or gains from fraud or anti-money laundering.

(ii) *Genuine underlying transactions*: in order to ensure the Third-party Settlement Arrangements are supported by genuine transactions, for payments received from the designated third parties of distributors, the distributors are required to submit the payer account and payment information to our Group after completion of the order and payment. The financial staff of our Group were allowed to record the fund flows only when the information submitted by the distributors is consistent with the order. Additionally, for payments made to the designated third parties of suppliers during the Track Record Period, our Group would only make payment to such designated third parties when the relevant suppliers requested to settle through a third-party account with a delegation letter specifying, among others, (a) their relationship with such designated third parties, (b) relevant transaction information, and (c) payment account information.

(iii) *Confirmation from distributors, suppliers and their designated third parties*: our Group communicated with distributors, suppliers and their designated third-party payers or collectors involved in the Third-party Settlement Arrangement in 2020, 2021 and the four months ended April 30, 2022 and has obtained confirmations from substantially all of them that, (a) all settlements with our Group were supported by genuine transactions; (b) the settlement amounts were consistent with the amounts incurred under the relevant transactions; (c) there were no commercial bribery, money laundering, tax evasion or existing or potential disputes with our Group associated with the Third-party Settlement Arrangement; and (d) each of them has never and will not claim any interests as to any transaction payment to or from our Group through the Third-party Settlement Arrangement, and any risk associated with the Third-party Settlement Arrangement will be borne by the distributors, suppliers and their designated third parties instead of our Group.

As advised by our PRC Legal Advisor, (i) the Third-party Settlement Arrangement is not in breach of mandatory requirements of applicable laws or regulations in China; (ii) as to distributors, suppliers and their designated third parties who have provided duly signed confirmation letters mentioned above, the risks are remote for our Group to be found obligated to return funds to the distributors, suppliers or their designated third parties, and/or their respective liquidators under the Third-party Settlement Arrangement; (iii) taking into consideration the compliance letters issued by the relevant local branches of PBOC and the facts mentioned above, the risk of money laundering related to the Third-party Settlement Arrangement is remote; and (iv) taking into consideration the compliance letters issued by, the interviews with the relevant tax authorities and the cessation of the Third-party Settlement Arrangement as mentioned above, the risk of our Group being subject to administrative penalties in violation of laws and regulations related to tax evasion under the Third-party Settlement Arrangement is remote.

Based on the foregoing, our Directors confirm that, (i) during the Track Record Period, the relevant payments were based on bona fide underlying transactions and valid contracts, and (ii) the risk of committing crimes, such as fraud, money laundering crime or commercial bribery is remote. Our Directors consider that the use of the Third-party Settlement Arrangement did not have any material adverse impact on our Group.

Enhanced Internal Control Measures

Transactions involving the Third-party Settlement Arrangement may negatively affect the integrity of our financial information and our normal business operations. Furthermore, misconducts involved during the settlement, such as embezzlement, fraud or other illegal activities, may significantly harm our reputation and brand image. For further information, see "Risk Factors — Risks Relating to Our Business and Industry — We are subject to various risks relating to third-party settlements and use of personal accounts." During the Track Record Period, our Group adopted enhanced internal control measures to safeguard our interest against risks associated with the Third-party Settlement Arrangement, including but not limited to the following:

(i) in our agreements with distributors and suppliers since April 2022, bank account information of each distributor or supplier has been set out with the assurance that such information is consistent with the business licenses of the relevant distributors or suppliers;

(ii) all distributors are required to submit its frequently used payment account information to our Group before any payment is made, and our Group will closely monitor any change of payment account information to identify any Third-party Settlement Arrangement;

(iii) for payments made to any counterparties, financial staff of our Group will check their account information before making any payments against information in the underlying contracts, the payments would only be made when the name of account owner and the contracting party are consistent;

(iv) for actual controllers of distributors and suppliers in the form of sole proprietorships who wish to settle relevant payments with our Group under the Third-party Payment Arrangements, they are required to complete application procedures according to our Group's policy before making any payments to our Group;

(v) for distributors or suppliers who are unable to directly settle payments with our Group immediately, they will be required to, (a) communicate relevant information to our Group, including, among others, the identity of the relevant designated third parties; (b) obtain prior written approval on a case-by-case basis from our responsible persons; and (c) provide our Group with a Designation Letter. In the Designation Letter, it is specified that the relevant distributors or suppliers delegate their payment obligation or grant rights for payments from Company under the terms of the original agreement with our Group to their respective designated third parties, which undertake to pay or receive the transaction amount directly to or from our Group under the same terms. It is further specified that, (a) our Group shall settle with the designated third parties as if it were settled with the relevant distributors or suppliers, (b) the third party payment delegation shall not discharge the payment obligation of the distributors or supplier, (c) our Group may demand payment from, and pursue legal action against, the distributors if the respective third-party payer fails to pay accordingly, and (d) the suppliers may not demand payment from, and pursue legal action against, our Group if our Group has completed the payment to the designated third parties;

(vi) before accepting any third-party settlement, information of the designated third party such as identity cards and relationship proofs shall be provided by the distributors and suppliers and our Group will verify the information against the record in our system to ensure that it was settled through the relevant designated third parties' account as provided by the distributors and suppliers;

(vii) our employees are required to reject and/or return all payments made by third-party payers and payment requests from third-party collectors that failed to satisfy the above-mentioned requirements;

(viii) our employees are required to notify the above policies and measures to all the distributors, suppliers and individual customers and not to make payment to our Group on behalf of any of the distributors, suppliers or individual customers; and

(ix) we manage our Group's bank accounts as well as our Group's other accounts used for transactions, such as Weixin and Alipay accounts, in accordance with the principle of segregation of duties. Different personnels of our finance department are assigned with different duties to verify, record, manage and settle transactions through such accounts, to ensure the accuracy of our accounting records, reduce the risks of account misuse and avoid account security risks.

Based on the follow-up review on the implementation of measures, our Directors are of the view that the above measures are effective and adequate in preventing unauthorized Third-party Settlement Arrangement and its associated risks, and our Directors will oversee the effectiveness of the aforementioned enhanced internal controls on the Third-party Settlement Arrangement in the future. Based on the independent due diligence work performed by the Joint Sponsors, and having considered the work and procedures performed by the internal control consultant to the Company, nothing material has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to disagree with the aforementioned view of our Directors in any material respect.

Management of Personal Accounts

Background

In order to facilitate funds transfer in a more flexible and convenient manner, our Group began to use personal bank, Weixin and Alipay accounts (the "**Personal Accounts**") of our employees in the daily operations before the Track Record Period, in the absence of sufficient compliance awareness. During the Track Record Period, our Group had been using a total of 11 personal bank, Weixin and Alipay accounts of six of our employees, none of whom was a connected person of our Group, with three subsidiaries involved. The use of such Personal Accounts was solely for administrative convenience and strictly restricted to business and operation purposes of our Group to settle, among others, (i) business transactions with distributors and suppliers, (ii) reimbursements for employees, (iii) cash advances to and from our Group's related parties and (iv) reimbursement of marketing events paid to sub-distributors and individual customers.

In 2020, 2021 and 2022, funds received through the Personal Accounts were RMB587.2 million, RMB1,310.3 million and nil, representing 8.6%, 7.0% and nil, respectively, of total funds received from all accounts of our Group for the same periods, while funds paid out of the Personal Accounts were RMB523.3 million, RMB1,384.4 million and nil, representing 7.9%, 7.7% and nil, respectively, of total funds paid out of all accounts of our Group for the same periods.

As of December 31, 2021, our Group had ceased the use of all Personal Accounts and the total balance in the Personal Accounts was nil as of December 31, 2021. Subsequently in February 2022, all Personal Accounts were canceled. Our Group considers that the cessation of use of Personal Accounts did not have, nor will have, any material adverse effect on the business, operations and financial results of our Group.

Implications relating to Personal Accounts

Notwithstanding the use of Personal Accounts during the Track Record Period, the Directors are of the view that the accounting books and records of the Company are accurate and complete in all material respects, based on the following measures adopted to ensure the integrity and completeness of our financial statements and that there were no unreported transactions by the employees throughout the Track Record Period:

(i) *Full control of Personal Accounts*: all information and materials that were used to operate the Personal Accounts, including the relevant bank cards, accounts passwords and/or USB keys, as applicable, were required to be kept by the authorized financial staff of our Group and operated under our Group's instructions, which ensures that all Personal Accounts are fully controlled and managed by our Group. Therefore, the six employees involved in the use of Personal Accounts were nominee account holders only, and there is no mixed use of funds in the Personal Accounts with the six employees' personal funds. All transactions through the Personal Accounts were related to our Group only and were duly recorded by the financial staff of our Group;

(ii) *Confirmation from account holders*: all holders of the Personal Accounts have provided written confirmations that, (a) our Group is the true beneficial owner of the funds deposited into the

Personal Accounts, and the funds in the Personal Accounts are managed solely by our Group; (b) all rights and obligations associated with the Personal Accounts should be solely owned by our Group and they will not claim any interests under the Personal Accounts; (c) there had never been any personal funds of the account holders in the Personal Accounts; (d) they had never changed the passwords or account information without authorization from our Group; (e) they had never been involved in the payment and receipts of funds in the Personal Accounts unless authorization from account registered owners was required by banks; and (f) they had never used, transferred or embezzled the funds in the Personal Accounts;

(iii) *Monitoring by financial staff:* To ensure the integrity and completeness of our financial statements, our Group has designated financial staff to be responsible for monitoring and keeping record of the fund flows on the Personal Accounts on a monthly basis, to ensure that (a) all funds in the Personal Accounts are only used for the business and operations of our Group, (b) no co-mingling of the funds in the Personal Accounts with the account holders' personal funds, and (c) appropriate accounting entries were made in our Group's accounting books and records. The financial staff were also responsible for reviewing and approving the accounting entries as well as conducting frequent reconciliation on the statements of the Personal Accounts with our Group's management accounts to ensure that the transaction records in the Personal Accounts have been appropriately recorded as accounting entries throughout the Track Record Period. Such accounting and record keeping procedures in respect of the management of the Personal Accounts were implemented in the same manner and subject to the same internal policy as that for the corporate accounts of our Group throughout the Track Record Period;

(iv) *Verification of transactions with distributors and suppliers:* in respect of our Group's transactions with our distributors and suppliers via Personal Accounts, our Group has conducted monthly reconciliation and check among our sales ledgers, agreements with counterparties, purchase orders, delivery notes, invoices, accounting entries and records in the Personal Accounts, to ensure records in the Personal Accounts in trade nature were reflected in our Group's accounting books and records;

(v) *Management of electronic ordering system:* to ensure there is no unreported transactions between employees and distributors, throughout the Track Record Period, distributors were required to place orders on the electronic ordering system of our Group. After the orders were placed, financial staff would automatically receive all transaction information and start to check (a) whether prices for each of the baijiu products are in line with our pricing policy, and (b) whether payments had been received in the Personal Accounts or the corporate accounts. The financial staff would only confirm stock delivery when prices set out in the orders from distributors complied with our internal pricing policy and all payments had been received. Therefore, (a) distributors were not able to place orders with individual employees without going through our electronic ordering system and accounting department, and (b) if any payments were remitted to accounts other than the Personal Accounts or the corporate accounts of our Group, no baijiu products will be delivered to distributors. Throughout the Track Record Period, we were not aware of any claims from distributors requesting stock delivery without receiving relevant payments in the Personal Accounts or the corporate accounts.

(vi) *Verification of funds transferred in relation to employees:* in respect of the funds transferred in relation to employees reimbursements via Personal Accounts, our Group has conducted periodic reconciliation and check among our internal policies, reimbursement invoices submitted and bank/account statements, to ensure payments made or received by the Personal Accounts are in line with our Group's internal policies and duly recorded;

(vii) *Verification of reimbursement of marketing events:* in respect of reimbursement of marketing events provided to sub-distributors and individual customers via Personal Accounts, our Group has conducted periodic reconciliation and check among relevant agreements, supporting documents provided for payments in connection with reimbursement of marketing events and bank/account statements, to ensure reimbursement of marketing events provided were duly reflected in our Group's accounting books and records;

(viii) *Monitoring of cash advances:* in respect of our Group's cash advances with our related parties via Personal Accounts, our Group has conducted periodic reconciliation and check between our accounting entries, underlying agreements, payment and receipt records in the Personal Accounts, to ensure records in the Personal Accounts in non-trade nature were duly reflected in our Group's accounting books and records. All cash advances via Personal Accounts had been settled as of December 31, 2021, and cash advances to or from related parties had ceased since then.

As advised by our PRC Legal Advisor, based on the facts mentioned above and the compliance letters and confirmation through interview from relevant local branches of PBOC, (i) the risks that our Group will be imposed any fines or penalties by the relevant local branches of PBOC in the future based on applicable laws and regulations with respect to the use of the Personal Accounts are remote; and (ii) the risks that our Group will be imposed any fines or penalties by the relevant government authorities in the future based on any anti-money laundering laws and regulations with respect to the use of the Personal Accounts are remote. As advised by our PRC Legal Advisor, the potential maximum penalties for us with respect to the use of the Personal Accounts are approximately RMB90,000. Our Directors consider that the use of the Personal Accounts did not have any material adverse impact on our Group.

Enhanced Internal Control Measures

The use of Personal Accounts may expose our Group to several risks without proper internal control in place. For further information, see "Risk Factors — Risks Relating to Our Business and Industry — We are subject to various risks relating to third-party settlements and use of personal accounts." During the Track Record Period, our Group took the following enhanced measures in accordance with our internal control policies to ensure that the use of Personal Accounts has been completely ceased and would not have a material adverse effect on our business, results of operations or financial condition:

(i) internal policy was adopted and announced within our Group that all payment of funds must be made through our Group's corporate accounts and no Personal Accounts could be opened or used for any corporate purpose;

(ii) financial staff of our Group will review all bank statements of the corporate accounts to check on abnormal or unauthorized transfer of funds on a weekly basis, and in case of any indication of use of Personal Accounts for the receipt or payment of funds by any members of our Group, our finance managers will be alerted immediately;

(iii) our Group has required that all contracts entered into with distributors shall set forth explicitly the designated corporate accounts of our Group used for receipt of funds; and

(iv) according to the separation of ownership and control policy implemented by our Group to prevent the unauthorized use of Personal Accounts, the nominee account holders of the Personal Accounts were not able to change the access information without alerting our Group.

Based on the follow-up review on the implementation of measures, our Directors are of the view that the above measures are effective and adequate in preventing unauthorized use of Personal Accounts and its associated risks. Based on the independent due diligence work performed by the Joint Sponsors, and having considered the work and procedures performed by the internal control consultant to the Company, nothing material has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to cast doubt on the aforementioned view of our Directors in any material respect.

Views of the Directors and the Joint Sponsors

Taking into account (i) the facts and circumstances surrounding the historical non-compliance incidents mentioned in this section, the Third-party Settlement Arrangement and the Use of Personal Accounts; (ii) the fact that none of our Directors was directly involved in the aforementioned incidents; (iii) the confirmations from the competent governmental authorities; (iv) the enhanced internal control measures that we have implemented; and (v) the training sessions attended by our Directors in relation to their obligations and duties as directors of a listed company from a Hong Kong law perspective, our Directors are of the view that the historical non-compliance incidents disclosed in this section, the Third-party Settlement Arrangement and the Use of Personal Accounts would not give rise to the concerns on the ability of our Directors to operate our Group in a legally compliant manner. Based on the independent due diligence work performed by the Joint Sponsors, nothing material has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to disagree with the aforementioned view of our Directors in any material respect.

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised), Zhenjiu Holding will hold approximately 69.08% of the issued share capital of our Company. Zhenjiu Holding is wholly owned by Mr. Wu, our founder, chairman of the Board and a Controlling Shareholder. Accordingly, Zhenjiu Holding and Mr. Wu will be our Controlling Shareholders under the Listing Rules upon Listing.

For details of Mr. Wu's biography, see "Directors and Senior Management." Apart from our Group and in addition to other industries, Mr. Wu is also engaged with other liquor-related businesses, see " — Liquor-related Businesses of Our Controlling Shareholder" in this section.

OUR BUSINESSES

Our Group primarily operates our baijiu business under the brands of *Zhen Jiu*, *Li Du*, *Xiang Jiao* and *Kai Kou Xiao*. For details of our baijiu products, see "Business."

LIQUOR-RELATED BUSINESSES OF OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, apart from our Group, Mr. Wu also controls other companies engaging in liquor production and distribution, details of which are set forth below.

Liquor Distribution

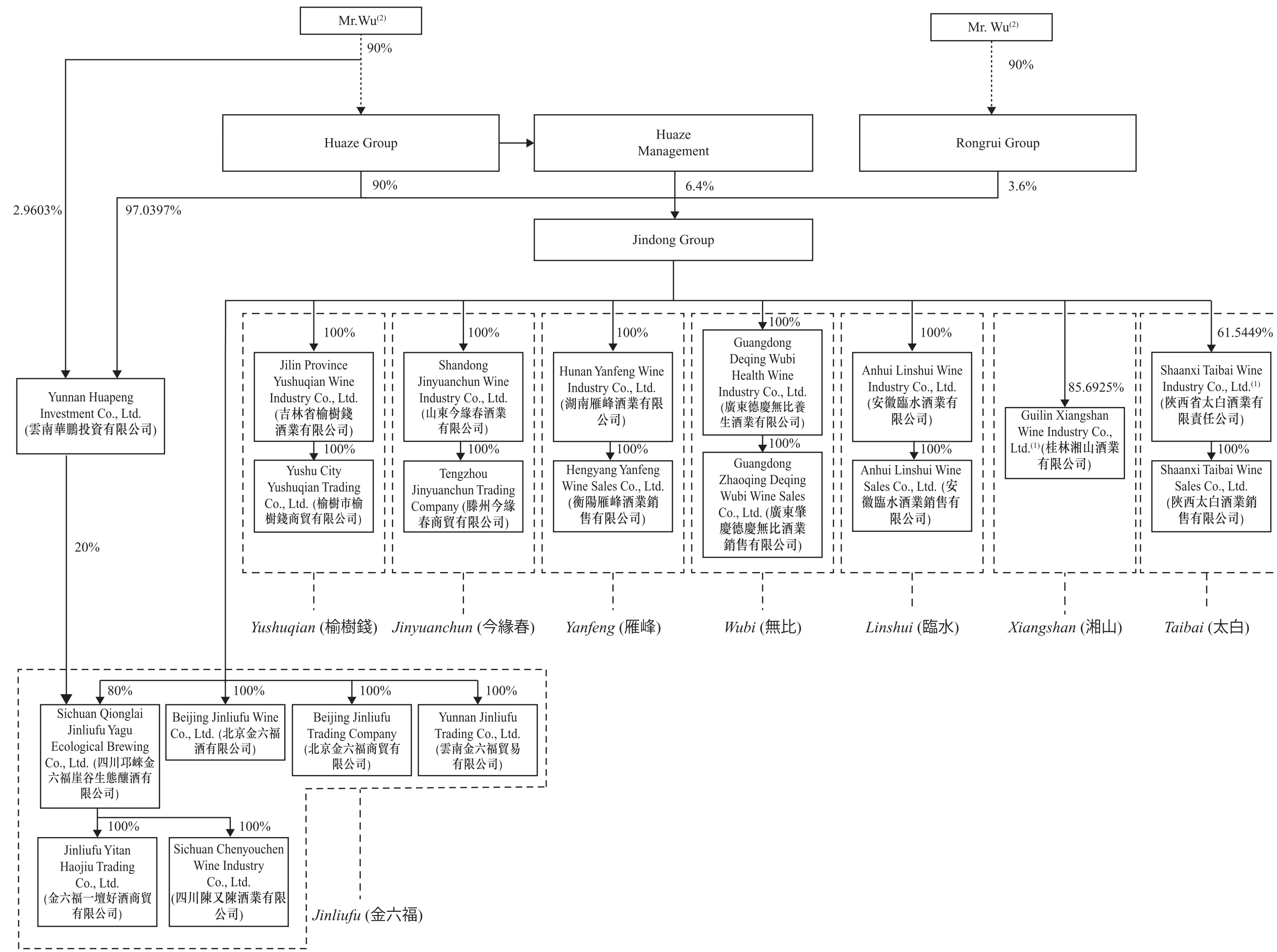
Vats Liquor is a company listed on the Shenzhen Stock Exchange (stock code: 300755.SZ) primarily engaging in the distribution of liquor products, including but not limited to baijiu, red wine and imported liquors. The Directors are of the view that the businesses between the Group and Vats Liquor are clearly delineated and there is no competition between the Group and Vats Liquor considering (a) they are engaged in fundamental different business model as Vats Liquor mainly engages in liquor trading distribution while we mainly engage in baijiu production and sales, (b) Vats Liquor mainly sells deluxe products such as *Moutai* (茅台) and *Wuliangye* (五糧液) with no existing or foreseeable distribution of our products and we mainly sell premium baijiu products through our own distributors, and (c) Vats Liquor is positioned as a liquor distributor brand, while we are mainly positioned as a baijiu producer, focusing on building our own baijiu brands. Pursuant to the annual reports of Vats Liquor, for the years ended December 31, 2020 and 2021, revenue derived from distribution of baijiu products accounted for approximately 86.9% and 87.5%, respectively, of its total revenue.

Baijiu Production and Sale (Excluded Baijiu Business)

Mr. Wu indirectly controls the following companies which are engaged in the production and sale of baijiu products including *Jinliufu* (金六福), *Yushuqian* (榆樹錢), *Jinyuanchun* (今緣春), *Yanfeng* (雁峰), *Wubi* (無比), *Linshui* (臨水), *Xiangshan* (湘山) and *Taibai* (太白) (as and when controlled by Mr. Wu, collectively, the "**Excluded Baijiu Business**"). The Excluded Baijiu Business are primarily local baijiu companies at city level mainly focusing on light-tasted (輕口味) products targeting mid-range and low-end market. Other than the Group and the Excluded Baijiu Business, the Controlling Shareholders do not own or control any other baijiu business.

As advised by the PRC Legal Advisor, the Directors confirmed that the Excluded Baijiu Business was not subject to any material non-compliance, claim or litigation during the Track Record Period and up to the Latest Practicable Date.

Please refer to the chart below for the shareholder structure of the Excluded Baijiu Business as of the Latest Practicable Date:



Notes:

(1) the remaining shares of which are held by an Independent Third Party.

(2) Huaze Group and Rongrui Group are held by Mr. Wu as to 90% and Mr. Yan Tao as to 10%, respectively.

DELINEATION BETWEEN OUR GROUP AND THE EXCLUDED BAIJIU BUSINESS

Having considered the following factors, as well as the proposed business and corporate governance measures to be implemented upon Listing following the execution of the Deed of Non-competition (including the undertakings therein with respect to the Excluded Baijiu Business), the Directors of the Company are of the view that the competition between the Group and the Excluded Baijiu Business is not material and any conflict of interests can be effectively managed:

Price Range

We set forth below revenue derived from baijiu products in different price ranges provided by the Group and the Excluded Baijiu Business for the Track Record Period:

For the year ended December 31 *(RMB in million, except %)*

	2020						2021						2022					
	The Group		The Excluded Baijiu Business		% of revenue from the Excluded Business in revenue of the Group from the same price range	% of revenue from the Excluded Business in the total revenue of the Group	The Group		The Excluded Baijiu Business		% of revenue from the Excluded Business in revenue of the Group from the same price range	% of revenue from the Excluded Business in the total revenue of the Group	The Group		The Excluded Baijiu Business		% of revenue from the Excluded Business in revenue of the Group from the same price range	% of revenue from the Excluded Business in the total revenue of the Group
	Revenue	%	Revenue	%			Revenue	%	Revenue	%			Revenue	%	Revenue	%		
Deluxe	378.4	15.77%	0.4	0.05%	0.11%	0.02%	908.1	17.80%	0.8	0.06%	0.09%	0.02%	1,438.7	24.57%	0.4	0.03%	0.03%	0.01%
Premium	862.7	35.96%	5.5	0.65%	0.63%	0.23%	1,933.6	37.90%	12.0	0.94%	0.62%	0.23%	2,388.1	40.78%	10.2	0.76%	0.43%	0.17%
Mid-Range	1,002.5	41.79%	238.5	28.37%	23.80%	9.94%	2,149.2	42.13%	347.8	27.38%	16.18%	6.82%	1,931.1	32.98%	289.0	21.44%	14.97%	4.94%
Low-end	155.3	6.48%	596.6	70.93%	384.07%	24.87%	110.7	2.17%	909.6	71.61%	821.48%	17.83%	98.0	1.67%	1,048.2	77.77%	1069.00%	17.90%
Total	**2,398.9**	**100.00%**	**841.0**	**100.00%**	**N/A**	**35.06%**	**5,101.6**	**100.00%**	**1,270.0**	**100.00%**	**N/A**	**24.90%**	**5,855.9**	**100.00%**	**1,347.8**	**100.00%**	**N/A**	**23.02%**

Note: Financial data of the Excluded Baijiu Business are based on their respective management accounts prepared under PRC Generally Accepted Accounting Principles instead of IFRS.

As elaborated in the subsection headed " — Deed of Non-competition — Undertaking with respect to the Products and Revenue of the Excluded Baijiu Business" in this section, upon Listing, the Excluded Baijiu Business will not engage in the production or sale of any baijiu products priced at premium or above.

While revenue derived from mid-range baijiu products in the Excluded Baijiu Business accounted for 14.97% and 4.94% of the revenue derived from mid-range baijiu products in the Group and total revenue of the Group, respectively, for the year ended December 31, 2022, the Excluded Baijiu Business will cease to produce any baijiu products priced at mid-range upon Listing and may only sell mid-range baijiu products produced before the cessation of such production, subject to the overall Revenue Targets as described in the subsection headed " — Deed of Non-competition — Undertaking with respect to the Products and Revenue of the Excluded Baijiu Business" in this section. Further, the Excluded Baijiu Business will completely cease the sale of mid-range baijiu products by the end of April 2024.

Considering low-end baijiu products only accounted for 1.67% in the revenue of the Group for the year ended December 31, 2022, they are not within the business priority or strategic direction of the development of the Group.

Therefore, there will not be material overlap of baijiu products sold by the Group and the Excluded Baijiu Business after Listing in terms of pricing, which would effectively limit any competition between the Group and the Excluded Baijiu Business.

Market Positioning and Profitability

As elaborated in the section headed "Business — Our Brands and Products", our main brands are premium baijiu brands (excluding *Kai Kou Xiao*), whereas the Excluded Baijiu Business primarily provide mid-range and low-end baijiu products and operate mass market baijiu brands. According to Frost & Sullivan, as of December 31, 2021, there are over 950 baijiu companies with sales revenue of more than RMB20 million in the market. In terms of revenue in 2021, except the two largest market players, none of the market players has a market share of more than 5% and except the top 5 market players, none of the market players has a market share of more than 3%. Therefore, operating in such a highly fragmented market, the chance of direct competition between the Group and the Excluded Baijiu Business is remote due to different marketing positioning.

In addition, we have achieved a significant higher net profit and net profit margin during the Track Record Period compared with the Excluded Baijiu Business as further demonstrated below. Such differences in market positioning and profitability usually lead to different perception from customers, business development and strategic planning with respects to brands under the Group and the Excluded Baijiu Business.

We set forth below the key financial information[1] of the Excluded Baijiu Business during the Track Record Period:

	Revenue			Gross Profit[2]			Net Profit/Loss			Gross Profit Margin[2]			Net Profit Margin		
	RMB'000 For the year ended December 31			*RMB'000* For the year ended December 31			*RMB'000* For the year ended December 31			*%* For the year ended December 31			*%* For the year ended December 31		
	2020	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**
Jinliufu (金六福)	503,270	792,105	848,876	262,690	536,065	396,935	13,870	107,610	43,612	52.2%	67.7%	46.8%	2.8%	13.6%	5.1%
Yushuqian (榆樹錢)	19,740	39,396	41,786	8,120	18,246	23,163	(4,710)	(3,400)	(11,882)	41.1%	46.3%	55.4%	N/M	N/M	N/M
Jinyuanchun (今緣春)	114,150	153,740	177,483	59,480	85,450	107,111	(1,290)	1,420	13,396	52.1%	55.6%	60.3%	N/M	0.9%	7.5%
Yanfeng (雁峰)	21,530	26,620	30,765	16,280	19,330	22,105	2,800	(1,070)	2,980	75.6%	72.6%	71.8%	13.0%	N/M	9.7%
Wubi (無比)	11,827	15,922	14,602	4,470	6,329	7,618	(1,403)	(1,910)	(3,610)	37.8%	39.8%	52.2%	N/M	N/M	N/M
Linshui (臨水)	88,274	110,698	125,419	56,023	75,594	87,467	3,973	(6,835)	12,049	63.5%	68.3%	69.7%	4.5%	N/M	9.6%
Xiangshan (湘山)	34,370	64,940	46,937	16,010	23,930	19,009	(9,730)	(22,760)	(4,923)	46.6%	36.8%	40.5%	N/M	N/M	N/M
Taibai (太白)	47,835	66,660	61,951	16,223	33,361	32,276	(36,655)	(48,759)	(31,309)	33.9%	50.0%	52.1%	N/M	N/M	N/M
The Excluded Baijiu Business in total	**840,996**	**1,270,081**	**1,347,819**	**439,296**	**798,305**	**695,684**	**(33,146)**	**24,296**	**20,313**	**52.2%**	**62.9%**	**51.6%**	**N/M**	**1.9%**	**1.5%**

Notes:

(1) Financial data of the Excluded Baijiu Business are based on their respective management accounts prepared under PRC Generally Accepted Accounting Principles instead of IFRS.

(2) Assuming IFRS were adopted, the gross profit for the Excluded Baijiu Business would be RMB302,352,000, RMB566,347,000 and RMB452,998,000, respectively, and its gross profit margin would be 36.0%, 44.6% and 33.6%, respectively, for the years ended December 31, 2020, 2021 and 2022. Such gap between gross profit margin of the Excluded Baijiu Business under PRC Generally Accepted Accounting Principals and IFRS was due to different treatment of tax and surcharges.

As demonstrated above, there were significant differences in the net profit margin recorded by the Group and the Excluded Baijiu Business during the Track Record Period. For the years ended December 31, 2020, 2021 and 2022, five, six and four brands under the Excluded Baijiu Business recorded net loss, respectively. Collectively, the Excluded Baijiu Business recorded net loss for the year ended December 31, 2020 and achieved a profit margin of 1.9% and 1.5% only for the year ended December 31, 2021 and 2022, respectively. Comparatively, our Group recorded adjusted net profit margin (non-IFRS measure) amounted to 21.7%, 21.0% and 20.4% for the years ended December 31, 2020, 2021 and 2022, respectively. The significant differences in the net profit margin recorded by the Group and the Excluded Baijiu Business were primarily attributable to (i) the Group has much higher gross margins than the Excluded Baijiu Business as the Group focuses on premium baijiu products while the Excluded Baijiu Business focuses on low-end products, and (ii) the Excluded Baijiu Business has considerable amount of expense required for baijiu business's daily operation while the revenue and business scale of the Excluded Baijiu Business are smaller than the Group.

Types of Aroma

According to Frost & Sullivan, alcoholic drinks are recreational beverage and the extent of "substitutability" of such products are primarily determined by the distinctive tastes and consumer experience offered by such products. Each of the aroma types has its specific distinctions (including production techniques, fermentation time and raw materials), which are not similar with each other. Such distinctive aroma profile results in distinctive tastes, consumer experience and products, which are not-substitutable with each other. In addition, consumers in China have different preferences for baijiu taste, in particular preferences for heavy-tasted or light-tasted baijiu, and most of them have developed a preference for a specific aroma type since each of the aroma profiles offers a unique taste experience. For those consumers who have developed a preference for a specific aroma type, baijiu products with different aroma profiles are not substitutable for one another.

We set forth types of aroma for each brands under the Excluded Baijiu Business in the subsection headed " — Summary of the Business Delineation between Group and the Excluded Baijiu Business" and breakdown in terms of revenue by aroma types under the Excluded Baijiu Business for the Track Record Period as the following:

	For the year ended December 31 *(RMB in million, except %)*					
	2020	**%**	**2021**	**%**	**2022**	**%**
Strong Aroma	612.3	72.80%	945.5	74.44%	1,059.8	78.63%
Sauce Aroma	5.1	0.61%	20.9	1.64%	1.4	0.10%
Mixed Aroma	133.0	15.81%	162.8	12.82%	165.3	12.26%
Rice Aroma	32.1	3.82%	61.4	4.84%	45.6	3.39%
Feng Aroma	47.8	5.69%	66.7	5.25%	62.0	4.60%
Medicine Aroma	10.7	1.27%	12.8	1.01%	13.8	1.02%
Total	**841.0**	**100.00%**	**1,270.1**	**100.00%**	**1,347.9**	**100.00%**

As elaborated in the subsection headed " — Deed of Non-competition", the Controlling Shareholders undertake that they shall and procure that its close associates (including the Excluded Baijiu Business, but other than the Group) not to engage in production and sale of any sauce aroma baijiu and mixed aroma baijiu.

Distribution Channel and Geographic Region

Both of the Group and the Excluded Baijiu Business sell their products primarily through distributors, from which the majority of the revenue of each of the Group and the Excluded Baijiu Business were generated during the Track Record Period. As of December 31, 2020, 2021 and 2022, there are 18, 23 and 20 distribution partners who provided distribution services to both the Group and the Excluded Baijiu Business, respectively, which contributed to around 1.6%, 1.0% and 0.7% in the total revenue of the Group, respectively. Therefore, the overlap of distribution channels between the Group and the Excluded Baijiu Business is extremely insignificant. To effectively manage any potential conflict of interests with respect to distribution channels between the Group and the Excluded Baijiu Business, the Company will (i) require all existing distribution partners to declare their business relationship with the Excluded Baijiu Business annually, and (ii) not cooperate with new distribution partners providing distribution services to the Excluded Baijiu Business, after Listing.

Our Group has a nationwide distribution network while the Excluded Baijiu Business (except for *Jinliufu*) mainly produce baijiu with a focus on regional markets and distribute products in specific cities. For example, *Linshui* and *Xiangshan* mainly focus on mid-range and below market distributed in a few cities in Anhui Province and Guangxi Province, respectively, with no national distribution.

While *Jinliufu* distributes its products nationwide, the key distribution regions (i.e. top five regions) in terms of the revenue contribution to our Group and *Jinliufu* for the year ended December 31, 2022 only overlap in Henan Province and Shandong Province. For the year ended December 31, 2022, Henan Province and Shandong Province contributed 12.5% and 7.4% to the revenue of the Group, respectively. Meanwhile, Henan Province and Shandong Province contributed 10.0% and 15.8% to the revenue of *Jinliufu* during such period, respectively. As such, although there is a limited overlap in terms of geographic region, taking into account the delineation between *Jinliufu* and our Group in terms of price range, types of aroma and each of *Jinliufu* and our Group does not have a market share exceeding 3% in 2021 in Henan Province or Shandong Province, respectively, such an overlap does not constitute material and/or substantive competition between our Group and *Jinliufu*.

Summary of the Business Delineation between the Group and the Excluded Baijiu Business

The following diagram illustrates that there is no material competition between the baijiu products of the Group and the Excluded Baijiu Business, directly or indirectly, having considered brand positioning, business scale, price ranges, aroma types or geographic focuses:

Brand	Brand Positioning	Business Scale	Price Range			Type of Aroma		Distribution Region	
		Revenue for the Year Ended December 31, 2022 (RMB in million)	Revenue of the Group/Excluded Baijiu Business for the Year Ended December 31, 2022 (RMB in million)			Main Aroma Type(1)	Supplementary Aroma Type	Main Distribution Region(2)	Nationwide Distribution or Not(2)
			Low-end	Mid- Range	Premium and above				
The Group									
Zhen Jiu (珍酒)	Premium	3,823	–	1,209	2,614	Sauce Aroma	–	Nationwide	Yes
Li Du (李渡)	Premium	887	7	200	680	Heavy-tasted Mixed Aroma	–	Nationwide	Yes
Xiang Jiao (湘窖)	Premium	713	–	181	532	Sauce Aroma, Heavy-tasted Mixed Aroma and Strong Aroma(3)	–	Hunan Province	No
Kai Kou Xiao (開口笑)	Mass Market	339	–	339	–	Strong Aroma(3) and Heavy-tasted Mixed Aroma	Sauce Aroma	Hunan Province	No
Other Brands	Mass Market	94	90	3	1	–	–	–	–
Total		5,856	97	1,932	3,827				
The Excluded Baijiu Business									
Jinliufu (金六福)	Mass Market	849	747	102	–	Strong Aroma	–	Nationwide(4)	Yes (4)
Yushuqian (榆樹錢)	Mass Market	42	15	23	4	Strong Aroma	–	Jilin Province	No
Jinyuanchun (今緣春)	Mass Market	177	160	17	–	Strong Aroma	–	Shandong Province	No
Yanfeng (雁峰)	Mass Market	31	4	26	1	Strong Aroma	Sauce Aroma	Hengyang City of Hunan Province	No
Wubi (無比)	Mass Market	15	15	–	–	Medicine Aroma	–	Chenzhou City of Hunan Province and Zhaoqing City of Guangdong Province	No
Linshui (臨水)	Mass Market	125	8	113	4	Mixed Aroma	–	Anhui Province	No
Xiangshan (湘山)	Mass Market	47	40	6	1	Rice Aroma	–	Guangxi Province	No
Taibai (太白)	Mass Market	62	59	2	1	Feng Aroma	–	Shaanxi Province	No
Total		1,348	1,048	289	11				

Notes:

1. Representing aroma type(s) each of which contributed to more than 10% in the total revenue of the brands for the year ended December 31, 2022.

2. Representing provinces or cities contributing to more than 90% individually or collectively in the revenue of a brand for the year ended December 31, 2022. A brand is considered as distributed nationwide if distributed in over 10 provinces for the year ended December 31, 2022.

3. Strong aroma contributed to 9.4% in the revenue of the Group for the year ended December 31, 2022.

4. The distribution overlap of *Jinliufu* is considered limited for the reasons set out in the section headed "Relationship with the Controlling Shareholders — Delineation Between our Group and the Excluded Baijiu Business — Distribution Channel and Geographic Region" in the Prospectus.

Corporate Governance Measures

With respect to the Excluded Baijiu Business, each of the Controlling Shareholders will grant the Company the Right of First Refusal (as defined below) and Call Option (as defined below) as well as provide the Company with undertakings in terms of production and sales of products and Revenue Targets of the Excluded Baijiu Business following the execution of the Deed of Non-competition upon Listing. Further, review and approval from the independent non-executive Directors and independent Shareholders (as applicable) will be involved to ensure the effective enforcement of the Deed of Non-competition. In addition to other corporate governance measures further illustrated in the subsection headed " — Corporate Governance Measures" below, the Company is of the view that any conflicts of interest between the Group and the Excluded Baijiu Business will be effectively managed.

REASONS FOR THE EXCLUSION OF THE EXCLUDED BAIJIU BUSINESS FROM OUR GROUP

Having considered, among others, the following reasons, the Company is of the view that it is not in the best interest of our Group or its Shareholders to acquire the Excluded Baijiu Business from Mr. Wu at this stage:

- *Zhen Jiu*, *Li Du, Xiang Jiao* are considered as premium baijiu brands with more than 60% revenue for each of these brands derived from baijiu products priced at premium or above for the year ended December 31, 2022. However, during the same period, more than 70% revenue of the Excluded Baijiu Business is derived from baijiu products priced at low-end. As there is clear differentiation in pricing and positioning as well as targeted consuming scenarios for premium baijiu brands and low-end brands, it is necessary to manage with significantly varied marketing efforts and business strategy, which therefore lead to our management and operation of the three premium baijiu brands as a whole, and low-end baijiu products are not within the business priority or strategic direction of the development of the Group;

- while *Kai Kou Xiao* mainly provides baijiu products priced at mid-range, it has been operated and managed together with *Xiang Jiao* under Hunan Xiangjiao for years, the major operating entity of *Xiang Jiao*, and with a generally commensurate growth profile as the Group during the Track Record Period. Thus, *Kai Kou Xiao* was part of our Group together with *Xiang Jiao*;

- as illustrated above, there were significant differences in the net profit margin recorded by the Group and the Excluded Baijiu Business during the Track Record Period. For the years ended December 31, 2022, the Excluded Baijiu Business achieved a profit margin of 1.5% while our Group recorded adjusted net profit margin (non-IFRS measure) amounted to 20.4%. It demonstrates our significant difference with the Excluded Baijiu Business in terms of profitability, which requires different development strategy and risk management;

- the Excluded Baijiu Business focuses on different types of aroma from our Group, in particular, we generated a majority of revenue from sauce aroma for each of the three years ended December 31, 2022 while only minimal revenue were generated from sauce aroma in the Excluded Baijiu Business. Different manufacturing standards and raw materials management is required for products with different types of aroma. Therefore, our investment on manufacture facilities and supply chain management are much higher than the Excluded Baijiu Business; and

- the Excluded Baijiu Business mainly distributes baijiu products in the regional markets while we distribute baijiu products nationwide. As a result, we adopt national distribution strategies whereas the Excluded Baijiu Business focuses on regional distribution network.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates (other than our Group) after Listing for the following reasons:

Management Independence

Our Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Wu, Mr. Yan Tao, Ms. Zhu Lin, Mr. Luo Yonghong and Mr. Ng are executive Directors and/or senior managements of our Group. Except Mr. Wu and Mr. Yan Tao, no directors or members of the senior management of our Group will take any roles in our Controlling Shareholders and their close associates (excluding the Group) upon Listing. Our Directors are of the view that our Group is capable of managing our business independently from our Controlling Shareholders and their respective close associates after the Listing, based on the following:

(i) among all our executive Directors and senior management, Ms. Zhu Lin, Mr. Luo Yonghong and Mr. Ng (three out of the five executive Directors) will take no roles in any companies in any of our Controlling Shareholders and their close associates (excluding our Group) upon Listing. In addition, seven out of nine Directors of the Company will have no roles within any companies controlled by Mr. Wu (excluding the Group) upon Listing;

(ii) none of our Directors, nor senior management will take any executive roles in any of our Controlling Shareholders and their close associates (excluding the Group) upon Listing;

(iii) as of the Latest Practicable Date, there are no overlapping directors, except Mr. Wu, and senior management between the Group and the Excluded Baijiu Business;

(iv) Mr. Sun Zheng, our non-executive Director, is independent from our Controlling Shareholders and their close associates (excluding the Group) and will contribute in a non-executive capacity at the board level;

(v) we have three independent non-executive Directors, representing one-third of the Board. The independent non-executive Directors will represent an element of independence at the board level and will, among other matters, review and monitor any connected transactions entered into between our Group and our Controlling Shareholders and their close associates from time to time, to protect the interests of our Company and the Shareholders as a whole;

(vi) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and any of the Directors or their respective close associates, the interested Director(s) shall abstain from participation of the relevant board meetings of our Company in respect of such transactions and the other Directors will vote and decide on the matter;

(vii) each of our Directors is aware of his or her fiduciary duties as a Director, that require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interests; and

(viii) we have adopted a series of corporate governance measures to manage potential conflicts of interest, if any, between our Group and our Controlling Shareholders as well as their close associates which would support our independent management in accordance with our Articles, relevant corporate governance policies and the Listing Rules as well as other applicable rules, laws and regulations. Please see the paragraph headed " — Corporate Governance Measures" in this section below for further information.

Operational Independence

We do not rely on the Controlling Shareholders and their close associates for our business development, staffing, logistics, administration, finance, internal audit, manufacturing, sales and marketing, or company secretarial functions. We have our own departments specializing in these respective areas which have been in operation and are expected to continue to operate separately and independently from the Controlling Shareholders and their close associates. In addition, we have our own headcount of employees for our operations and management for human resources.

We have independent access to suppliers, distributors and consumers and an independent management team to handle the day-to-day operations with our suppliers, distributors and consumers. We are also in possession of all relevant licenses, certificates, facilities and intellectual property rights necessary to carry on and operate our principal businesses and we have sufficient operational capacity in terms of capital and employees to operate independently.

Save as disclosed in the subsection headed " — Delineation between our Group and the Excluded Baijiu Business — Distribution Channel and Geographic Region" in this section, we have no overlapping distributors (as direct customers) with the other businesses controlled by Mr. Wu. For each of the three years ended December 31, 2022, transaction amounts with overlapping suppliers between our Group and other businesses controlled by Mr. Wu providing products and services including but not limited to raw materials and advertising services accounted for approximately 8% to 9% in our total purchase during the same period. Save as disclosed in Note 27(b) to the Accountants' Report included in Appendix I with respect to leases of an office building and a warehouse by our subsidiaries, we have not and will not lease any properties from other businesses controlled by Mr. Wu. Also, save as disclosed in the section headed "Directors and Senior Management" with respect to historical overlapping of management and the subsection headed " — Independence from our Controlling Shareholders — Management Independence" with respect to the existing management overlapping, we have not and will not share personnel, premises or other resources with the other businesses controlled by Mr. Wu. The historical transaction amounts (in trade nature) between the Group and other companies controlled by the Controlling Shareholders are RMB46.6 million, RMB240.4 million and RMB81.2 million for the year ended December 31, 2020, 2021 and 2022, respectively. For details, please refer to Note 27 to the Accountants' Report included in Appendix I. As of the Latest Practicable Date, we are not expected to have any continuing connected transaction with our Controlling Shareholders or their respective associates upon and after Listing.

Based on the above, our Directors believe that we are able to operate independently of the Controlling Shareholders and their close associates.

Financial Independence

As of the Latest Practicable Date, we have recorded dividends payable to Zhenjiu Holdings as further disclosed in the section headed "Financial Information — Dividends", and all loans and advances due to or from the Controlling Shareholders or their close associates have been fully settled. All share pledges and guarantees provided by or to the Controlling Shareholders or their close associates on the borrowings of our Group have also been fully released as of the Latest Practicable Date. During the Track Record Period, we had received Pre-IPO Investments from investors independently. For details of the Pre-IPO Investments, see "History, Development and Corporate Structure." In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third party financing.

Accordingly, we believe we are able to maintain financial independence from our Controlling Shareholders and their close associates.

Based on the above, our Directors believe that we do not place any reliance on the Controlling Shareholders or their close associates upon the Listing.

RULE 8.10 OF THE LISTING RULES

Mr. Wu and Mr. Yan Tao will be interested in the Excluded Baijiu Business as to 90% and 10% respectively through Jindong Group upon Listing. For further details, please refer to the shareholding chart of the Excluded Baijiu Business in the section headed " — Liquor-related Businesses of Our Controlling Shareholders — Baijiu Production and Sale (Excluded Baijiu Business)" above. Save as disclosed above and as of the Latest Practicable Date, none of our Controlling Shareholders or Directors was engaged or had interest in any business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

DEED OF NON-COMPETITION

In order to achieve clear delineation between the Excluded Baijiu Business and our Group, and avoid any potential competition, actual or perceived, arising therefrom, each of the Controlling Shareholders has entered into the Deed of Non-competition with our Company, pursuant to which, the Controlling Shareholders have irrevocably and unconditionally, jointly and severally, undertaken in favor of our

Company (for itself and on behalf of its subsidiaries) that at any time during the Relevant Period (as defined below), each of the Controlling Shareholders shall and shall procure that its close associates (other than members of our Group) not to, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on its own account or with each other or in conjunction with or on behalf of any person or company or otherwise, production and sale of any sauce aroma baijiu, mixed aroma baijiu or mid-range and above priced baijiu (the "**Restricted Business**"), or in any business that may compete, directly or indirectly with the Restricted Business (for the avoidance of doubt, other than their existing interests in the Excluded Baijiu Business). As of the Latest Practicable Date, companies controlled by Mr. Wu (except our Group and the Excluded Baijiu Business) mainly include (i) Jindong Group, the controlling entity of the Excluded Baijiu Business, Vats Liquor and other companies mainly involved in investment, finance, cultural and tourism, high-end manufacture, mining and energy, real estate and internet business, and (ii) Huaze Group, Huaze Management and Rongrui Group, which are mainly engaged in investment business. None of these companies currently operates or will operate the Restricted Business in the foreseeable future. In addition, the Controlling Shareholders further undertake that the Excluded Baijiu Business will only operate in their current geographic regions with limited overlapping distribution partners with our Group in the foreseeable future.

For the above purpose, the "Relevant Period" means the period commencing from the Listing Date and expiring on the earlier of (i) the date on which each of the Controlling Shareholders ceasing to control 30% (or such other amount as may from time to time be specified in the Takeovers Code) or more in the issued share capital of our Company, or otherwise is not regarded as a controlling shareholder of our Company under the Listing Rules; and (ii) the date on which our Shares cease to be listed and traded on the Stock Exchange (except for temporary trading halt or suspension of trading of the Shares on the Stock Exchange) .

The aforesaid undertaking does not apply to the Controlling Shareholders' and their close associates' holding of or interests in, directly or indirectly, shares in any company which conducts or is engaged in, directly or indirectly, any business that may compete, directly or indirectly, with our Group, provided that: (i) such shares are listed on a public stock exchange; and (ii) the total number of such shares held by the Controlling Shareholders and/or any of their respective close associates (including the Excluded Baijiu Business) does not amount to more than 5% of the issued shares of such company in question.

New Business Opportunity

Each of the Controlling Shareholders further undertakes, if any new business opportunity in any equity investments in any new business apart from the Excluded Baijiu Business relating to the business of our Group (the "**Business Opportunity**") is made available to any of them and/ or any of their respective close associates (other than members of our Group):

(a) the Controlling Shareholders shall and shall procure their respective close associates (other than members of our Group) direct to our Company any such Business Opportunity by serving to us a written notice; and

(b) such written notice shall include all information together with any documents possessed by any of the Controlling Shareholders or their close associates in respect of the Business Opportunity to enable us to evaluate the merit of the Business Opportunity and all reasonable assistance as requested by our Company to enable us to secure the Business Opportunity.

Upon receipt of the written notice from the Controlling Shareholders, our Group will consider whether it is in the interest of our Company and our Shareholders as a whole to pursue the Business Opportunity. For the avoidance of doubt, the Controlling Shareholders and any of their respective close associates (including the Excluded Baijiu Business but excluding our Group) will not be entitled to pursue the Business Opportunity even if the Business Opportunity is declined by our Group, if our Group considers that the Business Opportunity constitutes Restricted Business.

In addition, it is further provided in the Deed of Non-competition that if there is any Business Opportunity, such Business Opportunity shall be directed to our independent non-executive Directors, who shall decide whether to pursue such Business Opportunity and if any Business Opportunity constitutes Restricted Business.

Right of first refusal

Each of the Controlling Shareholders has granted us a right of first refusal, as part of the Deed of Non-competition, in the event that any of the Controlling Shareholders or any of their close associates wishes to sell any interest in the Excluded Baijiu Business (the "**Opportunity for Sale**"), each of the Controlling Shareholders or any of their close associates will offer the Opportunity for Sale (at the same price as such Opportunity for Sale is offered to any third party) to us and we shall have a right of first refusal in respect of such Opportunity for Sale subject to the Exercise Conditions (as defined below) (the "**Right of First Refusal**").

The Right of First Refusal is a right granted to us to acquire the interests in the Excluded Baijiu Business held by the Controlling Shareholders or any of their respective close associates at a time when such interests are intended to be sold to any third parties.

Decisions as to whether to exercise the Right of First Refusal shall be subject to the independent non-executive Directors and the independent Shareholders of our Company (if required) approving the acquisition. In addition, our Company should also appoint an independent financial adviser to review the terms of the acquisition of such interests and provide a letter of advice to the independent board committee and the independent shareholders of our Company (if required) (collectively, the "**Exercise Conditions**").

The exercise of the Right of First Refusal will constitute connected transaction(s) for our Company under Chapter 14A of the Listing Rules and will be subject to the applicable requirements under the Listing Rules. In the event that our Company decides to exercise the Right of First Refusal, an announcement will be issued by our Company setting out details of such exercise in accordance with relevant requirements under the Listing Rules. In the event that our Company decides not to exercise the Right of First Refusal, an announcement will also be issued by our Company setting out the reasons for not exercising such right and the Controlling Shareholders or any of their respective close associates may proceed to sell to the third party, provided that the price may not be lower than the price which was offered to our Company.

Call option granted to the Company

Each of the Controlling Shareholders has granted to our Company an option (the "**Call Option**") to acquire the whole or part of its interest in the Excluded Baijiu Business held directly or indirectly by the

Controlling Shareholders at any time upon and after Listing. The price at which the Call Option will be exercised shall be negotiated and agreed at arm's length between our Company and the Controlling Shareholders at the time of exercise. If the Controlling Shareholders and our Company fail to agree on the exercise price, an independent internationally recognized firm of valuers will be appointed to determine the exercise price.

Decisions as to whether to exercise the Call Option shall be subject to the independent non-executive Directors and the independent Shareholders (if required) approving the acquisition. In addition to the continuous review of its exercise, after the Listing, the independent non-executive Directors will undertake an annual review as to evaluate whether the Call Option should be exercised with respect to any or all of the Excluded Baijiu Business and disclose their views in the Company's annual reports. Further, our Company should appoint an independent financial adviser to review the terms of the acquisition of the interests in the Excluded Baijiu Business and provide a letter of advice to the independent board committee and the independent Shareholders (if required).

The exercise of the Call Option will constitute connected transaction(s) for our Company under Chapter 14A of the Listing Rules and will be subject to the applicable requirements under the Listing Rules. In the event that our Company decides to exercise the Call Option, an announcement will be issued by our Company setting out details of such exercise in accordance with relevant requirements under the Listing Rules.

Undertaking with respect to the Products and Revenue of the Excluded Baijiu Business

For products and revenue of the Excluded Baijiu Business, each of the Controlling Shareholders undertakes that:

- **Revenue Targets of the Excluded Baijiu Business**: the total revenue of the Excluded Baijiu Business, including baijiu products priced at mid-range and low-end, as a percentage in the revenue of the Group will be reduced year on year, to the level of less than **18%** for the year of **2023**, less than **15%** for the year of **2024** and less than **10%** for the year of **2025** and any given year thereafter (individually or collectively, the "**Revenue Targets**").

  To ensure continuing compliance with the Revenue Targets, the following **corporate governance measures** will be adopted:

  - The Excluded Baijiu Business will provide (i) its annual business plan (including projections on production and sale amounts) before the start of each financial year commencing from 2024, and (ii) its business plan (including projections on production and sale amounts) for the rest of the year of 2023 before Listing, to the Company.

  - The Excluded Baijiu Business will provide the Company with quarterly updates within one month after the end of each quarter with statistics on its sale and production amounts.

  - The Excluded Baijiu Business will provide the Company with its consolidated audited accounts within three months after the end of each financial year.

- The independent non-executive Directors of the Company will review all materials provided above (with the assistance of the audit committee of the Company and any external advisers, if deemed appropriate by the independent non-executive Directors at the expense of the Company) and confirm in the annual reports that the undertakings as disclosed in the listing document, in particular the Revenue Targets, are fully complied with. In the event that there is any indication that the Revenue Target will be exceeded for a given year during the review of the quarterly updates, the Excluded Baijiu Business will be required to provide updated business plan for the rest of the year to fulfill the Revenue Target promptly to the Company, with measures including but not limited to reducing production and/or sale amounts, as approved by the independent non-executive Directors, which is required to be strictly complied with for the rest of the year by the Excluded Baijiu Business.

- Failure to comply with the Revenue Targets in any given year will result in the Controlling Shareholders injecting any or all of their interests in the Excluded Baijiu Business (the "**Injection**"), subject to the approvals from the independent non-executive Directors and the independent shareholders (as applicable) pursuant to laws and regulations applicable to the Company (including the Listing Rules), so that the sales of the Excluded Baijiu Business (excluding entities proposed to be injected into the Group, or disposed to third parties if the Group decides not to proceed with the Injection) in the preceding year would comply with the Revenue Targets, within a timeframe as stipulated by the Company (as determined by the independent non-executive Directors). For instance, if the Group achieves a revenue of RMB10 billion while the Excluded Baijiu Business achieves a revenue of RMB2 billion for the year ended December 31, 2024, to comply with the 15% Revenue Target for the year of 2024, the Controlling Shareholders will dispose its equity interests in one or more brands (at the Controlling Shareholders' discretion) which have revenue of more than RMB500 million aggregately for the year ended December 31, 2024, to the Company in 2025, subject to the approvals from the independent non-executive Directors and the independent shareholders (as applicable) pursuant to laws and regulations applicable to the Company (including the Listing Rules) and within a timeframe as stipulated by the Company (as determined by the independent non-executive Directors). In the event that there is any indication that the Revenue Target will be exceeded for a given year during the review of the quarterly updates, the Controlling Shareholders will be required to provide an injection plan to the Group as requested and within a timeframe as stipulated by the independent non-executive Directors.

- In the event that the Group decides to proceed with the Injection, the consideration will be negotiated and agreed at arm's length between the Group and the Controlling Shareholders at the time of acquisition. If the Controlling Shareholders and the Group fail to agree on the exercise price, an independent well-recognized firm of valuers will be appointed to determine the consideration.

- In the event that our Group decides not to proceed with the Injection, an announcement will also be issued setting out the reasons for not acquiring such interests and the Controlling Shareholders or any of their close associates may proceed to sell such interest to third parties, provided that the price may not be lower than the price which was offered to the Company.

  - The Controlling Shareholders and the Company will use their best endeavors to comply with any other corporate governance measures as reasonably proposed by the Stock Exchange from time to time with reference to applicable requirements under the Listing Rules to ensure the compliance with the Revenue Targets.

- **Mid-range products:** the Excluded Baijiu Business will cease to produce any baijiu products priced at mid-range upon Listing and may only sell mid-range baijiu products produced before the cessation of such production, subject to the overall Revenue Targets as described above. The Excluded Baijiu Business will completely cease the sale of mid-range baijiu products by the end of April 2024. For the avoidance of doubt, the Controlling Shareholders confirm that the production of the mid-range baijiu products of the Excluded Baijiu Business has been and will be at a level commensurate with its historical production volume and development trends from the date of listing application and up to the Listing.

- **Premium or above products:** the Excluded Baijiu Business will not engage in the production or sale of any baijiu products priced at premium or above upon Listing.

- **Low-end products:** low-end products are not within the business priority or strategic direction of the development of the Group and the Company will confirm the business focus of the Group in terms of price range in its annual reports after Listing.

Indemnity

Each of the Controlling Shareholders has undertaken to indemnify and keep indemnified our Group against any damage, loss or liability suffered by our Company or any other member of our Group arising out of or in connection with any breach of its undertakings and/or obligations under the Deed of Non-competition, including any costs and expenses incurred as a result of such breach provided that such indemnity shall be without prejudice to any other rights and remedies our Company is entitled to in relation to any such breach, including specific performance, and all such other things and remedies are hereby expressly reserved by our Company.

Other undertakings

In order to protect the interests of our Company and our Shareholders (excluding the Controlling Shareholders), our Controlling Shareholders have undertaken that in the event that actual or perceived conflict of interests arises, our Controlling Shareholders will abstain from voting for such resolution in approving such transaction(s) both at the board level and at the Shareholders' meeting.

In addition, each of the Controlling Shareholders has undertaken to provide and/or procure the Excluded Baijiu Business to provide all available information of the Excluded Baijiu Business necessary for the enforcement of the undertakings in the Deed of Non-competition to our Company and would make an annual declaration on compliance with the Deed of Non-competition in the annual report of our Company and the corporate governance report of our Company pursuant to Appendix 14 to the Listing Rules.

Amendments

Any adjustment or amendment to the material terms of the Deed of Non-competition will be subject to the approvals of the independent non-executive Directors and independent Shareholders of our Company.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there will be adequate corporate governance measures in place to manage conflicts of interest and competition after Listing. In particular, we will implement the following measures:

(a) as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his associates have a material interest nor shall such Director be counted in the quorum present at the meeting;

(b) each Director is aware of his/her fiduciary duties as a Director, which require, among other things, that he/she acts for the benefit of our Company and the Shareholders as a whole and does not allow any conflict of interests between his/her duties as a Director and his/her personal interests. A Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and abstain from voting at the board meetings on matters in which such Director or his associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;

(c) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors, see "Directors and Senior Management — Directors — Independent Non-executive Directors";

(d) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Company enters into connected transactions with a Controlling Shareholder or any of his/her/its associates, our Company will comply with the applicable Listing Rules;

(e) the independent non-executive Directors of the Company will conduct annual review of the compliance of the Controlling Shareholders' undertaking and any competition issues from the Excluded Baijiu Business. Such review will be included in the annual reports of the Company;

(f) in the event that the independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group on the one hand and the Controlling Shareholders and/or the Directors on the other hand, the Controlling Shareholders and/or the Directors shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either through its annual report or by way of announcements;

(g) our independent non-executive Directors may engage independent professional adviser(s) in appropriate circumstances at our Company's costs;

(h) our audit committee shall be responsible for overseeing the implementation of the above measures; and

(i) we have appointed Somerley Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and corporate governance.

BOARD OF DIRECTORS

The Board of Directors of our Company consists of nine Directors, comprising five executive Directors, one non-executive Director and three independent non-executive Directors.

The table below sets forth certain information in respect of the members of the Board of Directors of our Company:

Name	Age	Position	Date of Joining our Group	Date of Appointment as Director	Roles and Responsibilities
Executive Directors					
Mr. WU Xiangdong (吳向東)	54	Executive Director and chairman of the Board	November 7, 2003	September 24, 2021	Overall strategic planning and business direction of our Group
Mr. YAN Tao (顏濤)	59	Executive Director and chief executive officer	December 23, 2009	November 25, 2021	Overall management and business operation of our Group
Ms. ZHU Lin (朱琳)	52	Executive Director and vice president	September 2, 2008	November 25, 2021	Overall daily operations, compliance and investment matters of our Group
Mr. LUO Yonghong (羅永紅)	51	Executive Director and finance director	December 23, 2009	November 25, 2021	Overall financial management of our Group
Mr. NG Kwong Chue Paul (吳光曙)	52	Executive Director and company secretary	October 1, 2021	October 5, 2021	Overall operational management and company secretarial affairs
Non-executive Director					
Mr. SUN Zheng (孫錚)	42	Non-executive Director	November 25, 2021	November 25, 2021	Participating in formulating the Company's corporate and business strategies
Independent Non-executive Directors					
Mr. YUNG Tse Kwong Steven (戎子江)	73	Independent non-executive Director	April 27, 2023	April 11, 2023, effective upon Listing	Supervising and providing independent judgment to our Board

Name	Age	Position	Date of Joining our Group	Date of Appointment as Director	Roles and Responsibilities
Mr. LI Dong (李東)	46	Independent non-executive Director	April 27, 2023	April 11, 2023, effective upon Listing	Supervising and providing independent judgment to our Board
Ms. YAN Jisheng (閆極晟)	43	Independent non-executive Director	April 27, 2023	April 11, 2023, effective upon Listing	Supervising and providing independent judgment to our Board

EXECUTIVE DIRECTORS

Mr. WU Xiangdong (吳向東), aged 54, founded our Group in November 2003 and has served as a Director of our Company and chairman of the Board since September 24, 2021. Mr. Wu was re-designated as our executive Director on December 24, 2022. Mr. Wu is also serving as chairman of the board, director or general manager in certain of our subsidiaries.

Mr. Wu has over 20 years of experience in the baijiu industry. He founded *Jinliufu* more than 20 years ago, which is a renowned baijiu brand in China. In March 2000, Mr. Wu founded Jindong Group, a company primarily engaged in the sales of baijiu and has been acting as its chairman of the board. Mr. Wu has been serving as chairman of the board of Huaze Group, a company controlled by Mr. Wu, which was in control of our business before Reorganization, since December 2005. In May 2005, Mr. Wu founded Vats Liquor (stock code: 300755.SZ) and has been working as its director and chairman of the board since then. In addition, Mr. Wu also served for certain executive or non-executive roles in the subsidiaries of Huaze Group, Jindong Group and Rongrui Group. Mr. Wu did not have any executive positions as of the Latest Practicable Date and is not expected to have any executive positions in our Controlling Shareholders and their close associates (excluding our Group) upon Listing.

Mr. Wu served as the 12th National People's Congress Deputy. Mr. Wu obtained his post-secondary's degree (中專學歷) majoring in import and export business from Hunan Foreign Economics and Trade School (湖南省對外經濟貿易學校, currently known as Hunan International Business Vocational College (湖南外貿職業學院)) in the PRC in June 1991.

Mr. YAN Tao (顏濤), aged 59, joined our Group since December 2009 and was appointed as our chief executive officer on October 1, 2021 and as a Director of our Company on November 25, 2021. Mr. Yan was re-designated as our executive Director on December 24, 2022. He has been serving as the vice chairman, general manager and legal representative at certain of our subsidiaries.

Mr. Yan has over 20 years of experience in corporate management. Prior to joining our Group, Mr. Yan served as the legal representative, director, supervisor, deputy general manager and general manager in the companies controlled by Mr. Wu, including but not limited to Huaze Group, Jindong Group and Rongrui Group since 2000. Mr. Yan served as the deputy general manager from 2006 to 2008 and the general manager from 2008 to 2021 in Huaze Group, where he was mainly responsible for its daily operation management. Since March 2016, Mr. Yan has been working as a director with non-executive role at Vats Liquor (stock code: 300755.SZ). In addition, none of positions of Mr. Yan in the Controlling Shareholders and their close associates (excluding the Group) is expected to be executive in nature and he is not expected to be involved in any day-to-day management of these companies upon Listing.

Mr. Yan graduated from Hunan Institute of Technology (湖南工學院) in the PRC majoring in machinery manufacturing and equipment in July 1985.

Ms. ZHU Lin (朱琳), aged 52, joined our Group in September 2008. She was appointed as our vice president on October 1, 2021 and as a Director of our Company on November 25, 2021. Ms. Zhu was re-designated as our executive Director on December 24, 2022. She has been serving as a director at Hunan Xiangjiao Sales since September 2008, a supervisor at Hunan Xiangjiao since January 2020 and as a director at Guizhou Zhenjiu since December 2021.

Ms. Zhu has approximately 20 years of experience in financial management and corporate management. Ms. Zhu has approximately 5 years of experience in accounting prior to joining Huaze Group and its subsidiary. Ms. Zhu served as the chief financial officer at Huaze Group and its subsidiary from October 2004 to December 2010, as its deputy general manager from January 2011 to September 2021 and as its director from January 2011 to January 2023, where she was mainly responsible for their financial and/or operational management. Ms. Zhu has also been serving as the director with a non-executive role at Vats Liquor from March 2016 to March 2023. Apart from that, Ms. Zhu also worked as a director and/or a deputy general manager for over a decade in companies controlled by Mr. Wu, including but not limited to Jindong Group. Ms. Zhu is not expected to have any positions in the Controlling Shareholders and their close associates (excluding our Group) upon Listing.

Ms. Zhu has been a certified public accountant of the Chinese Institute of Certified Public Accountants since October 2001. She has been an international affiliate of the Hong Kong Institute of Certified Public Accountants since February 2009.

Ms. Zhu graduated from Beihang University (北京航空航天大學) in the PRC in July 1995, majoring in computer and application.

Mr. LUO Yonghong (羅永紅), aged 51, joined our Group in December 2009. Mr Luo was appointed as our finance director on October 1, 2021 and as the Director of our Company on November 25, 2021. Mr. Luo was re-designated as our executive Director on December 24, 2022. He has been serving as the supervisor at Zhenjiu Sales since December 2009 and as the director at Guizhou Zhenjiu since December 2021.

Mr. Luo has over 20 years of experience in financial management. He has over 5 years of experience in accounting before he served as management in companies controlled by Mr. Wu since 2000. He served successively as the deputy chief financial officer from January 2006 to December 2008, administrative director from January 2009 to December 2011 and the chief financial officer at Huaze Group from January 2012 to September 2021, where he was mainly responsible for its financial and daily operation. Mr. Luo has been serving as a director taking non-executive role at Vats Liquor from March 2016 to March 2023. Apart from that, Mr. Luo also worked as director and chief financial officer for several years in other companies controlled by Mr. Wu. Mr. Luo is not expected to have any positions in the Controlling Shareholders and their close associates (excluding our Group) upon Listing.

Mr. Luo graduated from Changsha Commercial School (長沙商業學校) in the PRC, majoring in commercial finance and accounting, in July 1991. He obtained his bachelor's degree in exhibition management from Henan Normal University (河南師範大學) in the PRC in July 2016.

Mr. NG Kwong Chue Paul (吳光曙), aged 52, joined our Group in October 2021 and was appointed as our company secretary on October 1, 2021. Mr. Ng was appointed as the Director of our Company on October 5, 2021 and was re-designated as our executive Director on December 24, 2022.

Mr. Ng has over 20 years of experience in corporate finance and management. Mr. Ng founded Realvision Technology Limited and has served as its director from October 1999 to December 2006. In December 2005, Mr. Ng joined New Silkroad Culturaltainment Limited (新絲路文旅有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 0472, formerly known as MACRO-LINK International Holdings Limited (新華聯國際控股有限公司) and JLF Investment Company Limited (金六福投資有限公司)), in which he served as the executive director from March 2011 to June 2020 and worked as its chief investment officer, company secretary and acting chief executive. Mr. Ng also founded China Innovation Investment Limited, a company listed on the Hong Kong Stock Exchange (stock code: 01217) and served as its executive director from April 2003 to May 2006 and as its non-executive director from May 2006 to May 2013. He then served as an executive director in Longhui International Holdings Limited (龍輝國際控股有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 1007, formerly known as Daqing Dairy Co., Ltd. (大慶乳業有限公司)) from September 2013 to February 2016.

Mr. Ng is a member of Australian Institute of Management from August 1996. He has been a certified practicing accountant of the Australian Society of Certified Practising Accountants since April 1997 and was promoted to fellowship since July 2022, a certified public accountant of the Hong Kong Institute of Certified Public Accountants since June 1997 and a fellow of the Hong Kong Institute of Directors since June 2012.

Mr. Ng obtained his bachelor's degree of commerce from the University of Melbourne in Australia in October 1994.

NON-EXECUTIVE DIRECTOR

Mr. SUN Zheng (孫錚), aged 42, was appointed as our Director on November 25, 2021 and re-designated as our non-executive Director on December 24, 2022.

Mr. Sun has over 15 years of experience in corporate investment. Mr. Sun joined KKR Investment Consultancy (Beijing) Company Limited (together with its affiliates, "**KKR**") in September 2007 and is currently serving as a partner of KKR. Since Mr. Sun joined KKR, he has provided investment advisory services to KKR in connection with certain companies including but not limited to Guangdong Yuehai Feeds Group Co., Ltd. (廣東粵海飼料集團股份有限公司, "**Guangdong Yuehai**"), a company listed on the Shenzhen Stock Exchange (stock code: 001313). In addition, Mr. Sun has been serving as a director of Guangdong Yuehai since February 2021, where he was a supervisor from March 2016 to February 2021. Apart from that, he was and has been the director taking non-executive roles as appointed by KKR in several companies in which KKR invests or controls.

Mr. Sun graduated from Peking University and obtained his bachelor's degree in international economy and trading in July 2003, and his master's degree in English language and literature in July 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YUNG Tse Kwong Steven (戎子江), aged 73, was appointed as our independent non-executive Director on April 11, 2023, effective upon Listing. Mr. Yung is responsible for supervising and providing independent judgment to our Board.

Mr. Yung has over 30 years' management experiences from leading multinational & local companies in brand innovation, media & entertainment, strategic marketing, manufacturing & retail, property & FinTech. Prior to joining our Group, Mr. Yung had been working in the Coca-Cola Company in the U.S. from 1984 to 1994 and was promoted to the Director of Marketing Services in the Global Marketing Division in July 1991. In April 1994, he started working in DFI Retail Group Holdings Limited, a company listed on Singapore Exchange (XSES: D01), which was then Asia's largest retailer and part of the Jardine Matheson Group where he took various senior management roles and was responsible for its various brands, such as 7-Eleven and Wellcome etc. In February 1999, he started working as the managing director of regional client development for Asia Pacific and later the president of ACNielsen Media International. He then served as the chairman of the board and executive director at Clear Media Limited (白馬戶外媒體有限公司), a company formerly listed on the Stock Exchange (stock code: 0100), from July 2001 to December 2005 and as its chairman and non-executive director from January 2006 to December 2008. In February 2008, he started working as the general manager at Sino Land Company Limited. He was the chief executive officer at Imagi International Holdings Limited (意馬國際控股有限公司), a company listed on the Stock Exchange (stock code: 0585), from April 2012 to April 2014. Mr. Yung also served as an independent non-executive director of NVC International Holdings Limited (雷士國際控股有限公司), a company listed on the Stock Exchange (stock code: 2222), from November 2012 to June 2013. Mr. Yung has been a director of Child Development Matching Fund since 2009 and was the vice chairman at Youth Global Network from June 2013 to June 2021. He is currently a director of Seamless Group Inc. (formerly known as TNG FinTech Group) since December 2018. He is also an independent non-executive director at Kingmaker Footwear Holdings Limited (信星鞋業集團有限公司), a company listed on the Stock Exchange (stock code: 1170) since July 2006.

Mr. LI Dong (李東), aged 46, was appointed as our independent non-executive Director on April 11, 2023, effective upon Listing. Mr. Li is responsible for supervising and providing independent judgment to our Board.

Mr. Li has more than 21 years' management experience in public accounting, investment banking and corporate finance. Mr. Li currently serves as the chief financial officer of TH International Limited (NASDAQ: THCH) ("Tim Hortons China"). Prior to joining Tim Hortons China in September 2021, Mr. Li served as the chief financial officer of OneSmart International Education Group Limited (NYSE: ONE) (currently known as Meta Data Limited (NYSE: AIU)), a company listed on the New York Stock Exchange from July 2017 to June 2019, and as its director from September 2017 to June 2019. Mr. Li also served as the chief financial officer for several companies, including (i) Ximalaya, Inc from September 2019 to September 2021 and (ii) Ecovacs Robotics Holdings Limited (科沃斯機器人股份有限公司), a company listed on the Shanghai Stock Exchange (SSE: 603486). From September 2008 to March 2015, Mr. Li worked as an associate and later vice president at the investment banking group of Merrill Lynch (Asia Pacific)

Limited and as vice president in the investment banking department of ICBC International Holdings Limited in Hong Kong. Prior to that, Mr. Li worked in KPMG's auditing practice group from August 1999 to April 2006 in its Beijing and Mountain View, California offices, respectively.

Mr. Li has served as an independent non-executive director of Helens International Holdings Company Limited (海倫司國際控股有限公司), a company listed on the Stock Exchange (stock code: 9869) since August 2021. He has also served as an independent director of GreenTree Hospitality Group Ltd., a company listed on the New York Stock Exchange (NYSE: GHG) since March 2018, and an independent director of Boqii Holding Limited, a company listed on the New York Stock Exchange (NYSE: BQ) since September 2020. Mr. Li has also served as an independent non-executive director of Sinosoft Technology Group Limited (中國擎天軟件科技集團有限公司), a company listed on the Stock Exchange (stock code: 1297) since February 1, 2023.

Mr. Li obtained his bachelor's degree in accounting from School of Economics and Management, Tsinghua University in July 1999, as well as a master's degree in business administration from J. L. Kellogg School of Management, Northwestern University in the United States in June 2008. Mr. Li became a member of the Chinese Institute of Certified Public Accountants in 2002 and a member of the Certified General Accountants Association of Canada in 2001.

Ms. YAN Jisheng (閆極晟) (former name YAN Jun (閆俊)), aged 43, was appointed as our independent non-executive Director on April 11, 2023, effective upon Listing. Ms. Yan is responsible for supervising and providing independent judgment to our Board.

Ms. Yan has over 14 years' investment experience in consumer goods and service, retail and e-commerce. Ms. Yan has been serving as the founding partner and general manager of Being Capital since February 2021. She served as the partner of IDG Capital from February 2008 to January 2021. Ms. Yan served as a director in Secoo Holding Limited, a company listed on NASDAQ (stock code: SECO) from May 2011 to June 2020. She also served as a director in Three Squirrels Co., Ltd., a company listed on Shenzhen Stock Exchange (stock code: 300783) from February 2017 to March 2021.

Ms. Yan obtained her dual bachelor's degree in electronics and economics from Peking University in July 2001, and her master's degree of science from Northwestern University in December 2004.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The table below shows certain information in respect of our senior management:

Name	Age	Position	Time of Joining our Group	Time of Appointment as Senior Management	Role and Responsibilities
Mr. YAN Tao (顏濤)	59	Executive Director and chief executive officer	December 23, 2009	October 1, 2021	Overall management and business operation of our Group
Ms. ZHU Lin (朱琳)	52	Executive Director and vice president	September 2, 2008	October 1, 2021	Overall daily operations, compliance and investment matters of our Group

Name	Age	Position	Time of Joining our Group	Time of Appointment as Senior Management	Role and Responsibilities
Mr. LUO Yonghong (羅永紅)	51	Executive Director and finance director	December 23, 2009	October 1, 2021	Overall financial management of our Group
Mr. NG Kwong Chue Paul (吳光曙)	52	Executive Director and company secretary	October 1, 2021	October 1, 2021	Overall operational management and company secretarial affairs
Mr. WANG Lianbo (王連博)	36	Vice president and chief financial officer	February 1, 2023	February 1, 2023	Overall management on capital market financing and investors relationship affairs

For the biographies of the members of Mr. Yan Tao, Ms. Zhu Lin, Mr. Luo Yonghong and Mr. Ng Kwong Chue Paul, please refer to " — Executive Directors" of this section.

Mr. WANG Lianbo (王連博), aged 36, was appointed as the vice president and chief financial officer of our Company on February 1, 2023. He is responsible for overall management of capital market financing and investors relationship affairs of our Group.

Mr. Wang has over 10 years of experience in investment banking and capital market. Mr. Wang served as an assistant manager in KPMG Huazhen from 2008 to 2011. From 2011 to 2012, he worked as an assistant manager in Hony Capital. From 2012 to 2014, Mr. Wang worked as an associate in Boxin Capital. He joined Goldman Sachs Gao Hua Securities Company Limited in 2016 and served as an executive director from 2019 to 2023.

Mr. Wang obtained his bachelor degree in management from Renmin University of China (中國人民大學) in 2008, and master degree of business administration from Hong Kong University of Science and Technology (香港科技大學) in 2016. Mr. Wang has been a member of China Institute of Certified Public Accountants since 2011.

DIRECTORS' AND SENIOR MANAGEMENT'S INTERESTS

Save as disclosed above, none of our Directors or senior management members has been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

As of the Latest Practicable Date, none of our Directors or senior management is related to other Directors or senior management of our Company.

COMPANY SECRETARY

Mr. NG Kwong Chue Paul (吳光曙), aged 52, was appointed as the company secretary on October 1, 2021. For details of his biography, see " — Executive Directors" in this section.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors receive compensation in the form of fees, salaries, bonuses, other allowances, benefits in kind, and contribution to the retirement scheme. We determine the compensation of our Directors based on each Director's responsibilities, qualification, position and seniority.

The aggregate amount of remuneration of our Directors (including directors' fees, salaries, allowances and benefits in kind, discretionary bonus, and retirement scheme contributions) for the three years ended December 31, 2020, 2021 and 2022 were RMB12.2 million, RMB13.5 million and RMB21.0 million, respectively.

It is estimated that remuneration and benefits in kind (excluding any discretionary bonus which may be paid to any Directors) equivalent to approximately RMB20.7 million in aggregate will be paid and granted to our Directors by us in respect of the financial year ending December 31, 2023 under arrangements in force at the date of this prospectus.

The aggregate amount of remuneration of our five highest paid individuals for the three years ended December 31, 2020, 2021 and 2022 were RMB13.8 million, RMB15.6 million and RMB21.1 million, respectively.

During the Track Record Period, no remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors, past Directors or the five highest paid individuals for the Track Record Period for the loss of office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

Before the Reorganization in September 2021, Mr. Wu, Mr. Yan Tao, Ms. Zhu Lin and Mr. Luo Yonghong, all being our executive Directors, worked as chairman of the board, directors, general manager, chief executive officer and chief financial officer of Huaze Group, respectively. Huaze Group was the then controlling entity of all our operating subsidiaries in the PRC and the four executive Directors were responsible for the daily operation of Huaze Group and its subsidiaries, including but not limited to operating subsidiaries of our Group after the Reorganization. In addition, the four executive Directors also acted as chairman of the board, director, deputy chairman of the board, legal representative and/or supervisor in certain of our major operating subsidiaries such as Hunan Xiangjiao, Hunan Xiangjiao Sales, Jindong Brewing and Zhenjiu Brewing. Therefore, before the Reorganization, emoluments of the four executive Directors in the amount of RMB10,892,000 and RMB9,262,000 were borne and paid by Huaze Group for the years ended December 31, 2020 and 2021, respectively (the "**Relevant Emoluments**"). Between September 2021 and November 2021, along with the Reorganization, the four executive Directors were appointed as Directors and senior management of our Group, after which the four executive Directors have been focusing on the management of our Group until now. Accordingly, salaries of the four executive

Directors after the Reorganization were borne and paid by our Group. Assuming the Relevant Emoluments were borne by the Group before the Reorganization, the general and administrative expenses of the Group would be increased by RMB10,892,000 and RMB9,262,000 for the year ended December 31, 2020 and 2021, respectively, while the net profit of the Group for the years ended December 31, 2020 and 2021 would be decreased by RMB8,169,000 and RMB6,947,000 respectively.

For additional information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please see notes 8 and 9 of the Accountants' Report set out in Appendix I to this prospectus.

Save as disclosed above in this section and the sections headed "Appendix I — Accountants' Report" and "Appendix IV — Statutory and General Information", no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.

CORPORATE GOVERNANCE

Our Board has established audit, remuneration and nomination committees, to which they have delegated various responsibilities. The committees operate in accordance with terms of reference established by our Board of Directors.

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The Audit Committee consists of one non-executive Director and two independent non-executive Directors, being Mr. SUN Zheng (孫錚), Mr. LI Dong (李東) and Ms. YAN Jisheng (閆極晟). Mr. LI Dong (李東), being the chairperson of the Audit Committee, holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee include, without limitation, assisting our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group and overseeing the audit process.

Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The Remuneration Committee consists of one executive Director and two independent non-executive Directors, being Mr. LUO Yonghong (羅永紅), Mr. YUNG Tse Kwong Steven (戎子江) and Mr. LI Dong (李東). Mr. YUNG Tse Kwong Steven (戎子江) is the chairperson of the Remuneration Committee. The primary duties of the Remuneration Committee include, without limitation, the following: (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management, or alternatively, making recommendations to the Board on such remuneration packages; and (iii) reviewing performance-related elements of the total remuneration package for executive Directors to align their interests with those of Shareholders.

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with Rule 3.27A of the Listing Rules and the Corporate Governance Code. The Nomination Committee consists of one executive Director and two independent non-executive Directors, being Mr. WU Xiangdong (吳向東), Mr. YUNG Tse Kwong Steven (戎子江) and Ms. YAN Jisheng (閆極晟). Mr. WU Xiangdong (吳向東) is the chairperson of the Nomination Committee. The primary duties of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive Directors and making recommendations to the Board of Directors on matters relating to the appointment of Directors.

Board Diversity Policy

In order to enhance the effectiveness of the Board and to maintain the high standard of corporate governance, we have adopted the board diversity policy which sets out our objectives and approach to achieve and maintain diversity of the Board. Pursuant to this policy, we seek to achieve board diversity through the consideration of a number of factors when selecting the candidates to the Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural and education background and length of service. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to the Board.

The Board comprises nine members, including five executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors have a balanced mix of gender, knowledge, skills and experience, including but not limited to management, sales, accounting and finance. Taking into account our existing business model and specific needs as well as the different background of our Directors, the composition of the Board satisfies our board diversity policy, and the Board and the nomination committee of our Company will assess the Board composition regularly.

Our nomination committee is responsible for reviewing the diversity of the Board. After Listing, our nomination committee will continue to monitor and evaluate the implementation of the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy, including any measurable objectives set for implementing the board diversity policy and the progress on achieving these objectives on an annual basis. We will also continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at the Board and senior management levels.

Corporate Governance Code

Our Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.

Our Company has adopted the code provisions stated in the Corporate Governance Code. Our Company is committed to the view that our Board should include a balanced composition of executive Directors and independent non-executive Directors so that there is a strong independent element on our Board, which can effectively exercise independent judgment.

Compliance Adviser

We have appointed Somerley Capital Limited as our Compliance Adviser pursuant to Rule 3A.19 of the Listing Rules. Our Compliance Adviser will provide us with guidance and advice as to compliance with the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, our Compliance Adviser will advise our Company in certain circumstances including: (a) before the publication of any regulatory announcement, circular, or financial report; (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases; (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this prospectus; and (d) where the Stock Exchange makes an inquiry to our Company under Rule 13.10 of the Listing Rules.

The term of appointment of our Compliance Adviser shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

COMPETITION

Save as disclosed in the section headed "Relationship with the Controlling Shareholders" and as of the Latest Practicable Date, none of the Directors have any interest in a business which competes or is likely to compete, directly or indirectly, with our business and requires disclosure under Rule 8.10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised, the following persons will have interests and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Substantial Shareholder	Capacity / Nature of interest[(1)]	Shares held as of the Latest Practicable Date		Shares held immediately following the completion of the Global Offering	
		Number	Approximate Percentage	Number	Approximate Percentage
Mr. Wu[(2)]	Interest in controlled corporation	45,199,280	81.28%	2,259,964,000	69.08%
Zhenjiu Holding[(2)]	Beneficial owner	45,199,280	81.28%	2,259,964,000	69.08%
Zest Holdings[(3)]	Beneficial owner	9,015,430	16.21%	450,771,500	13.78%
Zest Holdings I Pte. Ltd.[(3)]	Interest in controlled corporation	9,015,430	16.21%	450,771,500	13.78%
KKR Asian Fund IV Zest AIV L.P.[(3)]	Interest in controlled corporation	9,015,430	16.21%	450,771,500	13.78%
KKR AFIV Zest AIV (GP) Limited[(3)]	Interest in controlled corporation	9,015,430	16.21%	450,771,500	13.78%
Maples FS Limited[(3)]	Trustee	9,015,430	16.21%	450,771,500	13.78%

Notes:

(1) All interests stated are long positions.

(2) Zhenjiu Holding is wholly owned by Mr. Wu. By virtue of the SFO, Mr. Wu is deemed to be interested in the Shares in which Zhenjiu Holding is interested in.

(3) Zest Holdings is wholly-owned by Zest Holdings I Pte. Ltd. (a company incorporated in Singapore, "**Zest Holdings I**"), which is held as to 74.17% by KKR Asian Fund IV Zest AIV L.P. (a limited partnership established in Ontario, Canada, "**Fund IV Zest AIV**"), and its general partner is KKR AFIV Zest AIV (GP) Limited (a company incorporated in the Cayman Islands, "**Zest GP**"). Maples FS Limited (a company incorporated in the Cayman Islands, "**Maples FS**") holds 100% shareholding interests in Zest GP as trustee under a trust fund declared under the laws of the Cayman Islands, and Kohlberg Kravis Roberts & Co. L.P. acts as the investment manager of Zest GP. Mr. KRAVIS Henry Roberts, Mr. ROBERTS George R., all other senior management of KKR, and Maples FS (as trustee) disclaimed any beneficial ownership interest in the Shares held by Zest Holdings. By virtue of the SFO, each of Zest Holdings I, Fund IV Zest AIV, Zest GP and Maples FS is deemed to be interested in the Shares in which Zest Holdings is interested in.

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Global Offering.

As at the Latest Practicable Date, our authorized share capital was US$50,000 divided into (i) 490,984,570 ordinary Shares of par value US$0.0001 each and (ii) 9,015,430 Series A Preferred Shares of par value US$0.0001 each, and our issued share capital consisted of 9,015,430 Series A Preferred Shares and 46,597,195 ordinary Shares. In addition, immediately after completion of the Share Subdivision, the authorized share capital of our Company will be US$50,000 divided into 25,000,000,000 Shares of a par value of US$0.000002 each.

Each of the Preferred Shares will be converted into ordinary Shares on a one-to-one basis by way of re-designation and re-classification immediately before Listing.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

Description of Shares	Number of Shares	Aggregate nominal value of Shares	Approximate percentage of issued share capital
		(US$)	(%)
Shares in issue (including the Shares on re-designation of the Preferred Shares)	2,780,631,250	5,561.2625	85.0
Shares to be issued under the Global Offering	490,699,800	981.3996	15.0
Total	3,271,331,050	6,542.6621	**100**

Assuming the Over-allotment Option is exercised in full, the share capital of our Company upon completion of the Global Offering will be as follows:

Description of Shares	Number of Shares	Aggregate nominal value of Shares	Approximate percentage of issued share capital
		(US$)	(%)
Shares in issue (including the Shares on re-designation of the Preferred Shares)	2,780,631,250	5,561.2625	83.13
Shares to be issued under the Global Offering	564,304,600	1,128.6092	16.87
Total	3,344,935,850	6,689.8717	**100**

ASSUMPTIONS

The above tables assume the Global Offering becomes unconditional, completion of the Share Subdivision, the Shares are issued pursuant to the Global Offering, and that each of the Preferred Shares are converted into Shares on a one-to-one basis.

RANKING

The Offer Shares are shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued (including all the Shares as converted from Preferred Shares upon completion of the Global Offering) and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Pursuant to the Cayman Companies Act and the terms of the Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its share capital; (ii) consolidate and divide its share capital into Shares of larger amount; (iii) divide its Shares into several classes; and (iv) cancel any Shares which have not been taken or agreed to be taken. In addition, our Company may, subject to the provisions of the Cayman Companies Act, reduce its share capital or capital redemption reserve by its Shareholders passing a special resolution. See "Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (iii) Alteration of capital" in Appendix III for further details.

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted general unconditional mandates to issue and repurchase our Shares.

For further details of these general mandates, see "Statutory and General Information — A. Further Information about our Company and our Subsidiaries — 4. Written Resolutions Passed by Our Shareholders on April 11, 2023" in Appendix IV.

The following discussion and our analysis should be read in conjunction with our consolidated financial statements included in the Accountants' Report in Appendix I, together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this prospectus, including but not limited to the sections headed "Risk Factors" and "Business."

For the purposes of this section, unless the context otherwise requires, references to the years of 2020, 2021 and 2022 refer to the years ended December 31 of such years.

OVERVIEW

We are a leading baijiu company in China devoted to offering premium baijiu products featuring sauce aroma profile. According to Frost & Sullivan, we were the fourth largest privately-owned baijiu company and ranked third among all baijiu companies with three or more aroma types, in terms of revenue in 2021. According to Frost & Sullivan, we ranked 14th among all baijiu companies in China with a market share of 0.8%, in terms of revenue in 2021. We have grown significantly faster than the industry average during the Track Record Period. Our growth capitalized on the increasing popularity of sauce aroma baijiu across China and consumer preferences towards premiumization, and we are expected to continue to benefit from these market trends. We operate four major baijiu brands in China, including our flagship brand *Zhen Jiu* (珍酒), a thriving brand *Li Du* (李渡), as well as two regional leading brands *Xiang Jiao* (湘窖) and *Kai Kou Xiao* (開口笑). Leveraging these renowned brands, we promote traditional Chinese baijiu culture by developing a broad selection of fragrant, mellow baijiu products to appeal to different consumer preferences and capture broader market opportunities.

During the Track Record Period, we achieved strong growth and outstanding profitability. In 2020, 2021 and 2022, our total revenue reached RMB2,398.9 million, RMB5,101.6 million and RMB5,855.9 million, respectively, representing an increase by 112.7% from 2020 to 2021 and an increase by 14.8% from 2021 to 2022. In 2020, 2021 and 2022, our net profit margin was 21.7%, 20.2% and 17.6%, respectively, while our adjusted net profit margin (non-IFRS measure) for the same periods was 21.7%, 21.0% and 20.4%, respectively.

BASIS OF PRESENTATION

The historical financial information of our Group has been prepared in accordance with International Financial Reporting Standard ("**IFRSs**") issued by International Accounting Standards Board. The preparation of the historical financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to make judgments, estimates and assumptions in the process of applying our Group's accounting policies. Judgments made by management in the application of IFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3 to the Accountants' Report included in Appendix I to this prospectus.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control. These factors include but are not limited to the following:

Consumer Demand for Our Products

Our results of operations have been and will continue to be dependent on consumer demand for our baijiu products. Driven by China's continued economic growth and increasing disposable income per capita, the baijiu market in China is expected to continue to grow from RMB621.1 billion in 2022 to RMB769.5 billion in 2026, according to Frost & Sullivan. In particular, China's premium and deluxe baijiu market is projected to experience a rapid growth, with the market size in terms of revenue increasing from RMB234.1 billion in 2022 to RMB371.9 billion in 2026. We are expected to continue to benefit from the rising consumer demand for premium and deluxe baijiu products alongside China's continuous macroeconomic growth.

As we primarily produce and sell sauce aroma, mixed aroma and strong aroma baijiu products, our business, results of operations and prospects also depend on consumer demand for baijiu products with these specific aroma profiles, and particularly sauce aroma baijiu that our flagship brand *Zhen Jiu* has been focused on. In recent years, sauce aroma baijiu has gained significant popularity due to its high product quality, multilayer scent and a hint of unique umami flavor that cannot be found in other types of baijiu products. The size of China's sauce aroma baijiu market in terms of revenue has grown at a CAGR of 15.8% from RMB105.6 billion in 2017 to RMB190.0 billion in 2021, and is expected to grow at a CAGR of 12.2% from 2022 to 2026, from RMB203.3 billion in 2022 to RMB321.7 billion in 2026. We seek to continue to capitalize on these tremendous market opportunities to drive the long-term growth of *Zhen Jiu* and our overall business.

Consumer demand is driven by a number of other factors. These factors include rapidly growing demand for quality and integrity and flavor in baijiu products. As the leading premium baijiu brands in China, we believe that our strong brand value, popular and diverse products, proven track record of strong business growth, and our ability to constantly innovate and adapt to evolving consumer preferences well-position us to capture the attractive opportunities in China's growing baijiu market.

Our Ability to Continue to Optimize Product Mix to Improve Profitability

Our ability to optimize our baijiu product mix is crucial to our revenue and profit growth in the long term. We offer a broad selection of fragrant, mellow baijiu products with diverse aroma profiles, catering to consumers' varying preferences in baijiu flavors and tastes. Our baijiu products appeal to distinct demographics of consumers with different price ranges, which typically results in the different gross margin profiles. The following table sets forth revenue generated from and gross margin for our baijiu products of different price ranges during the Track Record Period.

	For the year ended December 31,					
	2020		2021		2022	
	Revenue	Gross margin (%)	Revenue	Gross margin (%)	Revenue	Gross margin (%)
	(RMB in thousands, except for percentages)					
Deluxe	378,375	67.7	908,090	67.3	1,438,700	66.6
Premium	862,712	66.8	1,933,552	66.0	2,388,084	63.1
Mid-range and below	1,157,828	36.3	2,259,951	37.3	2,029,133	38.1
Total	**2,398,915**	**52.2**	**5,101,593**	**53.5**	**5,855,917**	**55.3**

Our baijiu products at higher price points generally have higher gross margins as compared to entry-level baijiu products, primarily attributable to higher average selling prices. To capitalize on tremendous market opportunities and to continue optimizing our product mix to improve profitability, we have been focusing on developing and expanding our premium and deluxe product portfolios. During the Track Record Period, the revenue contributions by our premium and deluxe baijiu products increased steadily. Revenue generated from our premium baijiu products increased from RMB862.7 million in 2020 to RMB1,933.6 million in 2021, and further to RMB2,388.1 million in 2022. In addition, revenue generated from our deluxe baijiu products increased from RMB378.4 million in 2020 to RMB908.1 million in 2021, and further to RMB1,438.7 million in 2022. In 2022, revenue generated from our premium baijiu products and deluxe baijiu products, as a percentage of our total revenue, has grown to reach 40.8% and 24.6%, respectively. Accordingly, our overall gross margin improved throughout the Track Record Period, growing from 52.2% in 2020 to 53.5% in 2021, and further to 55.3% in 2022. As we continue to optimize product mix and expand our offerings of baijiu products with high gross margins, we seek to continue to drive our revenue growth and improve our long-term profitability.

Our Ability to Continue to Expand Production Capacity

We believe our long-term growth depends in part on our ability to continue to expand production capacity in response to the increasing consumer demand for our baijiu products. As of the Latest Practicable Date, we had six production facilities in operation in China. In 2020, 2021 and 2022, our base liquor production volume amounted to 8,959 tons, 11,058 tons and 25,694 tons, respectively. We intend to continue to increase our overall production capacity. As of the Latest Practicable Date, we had commenced the expansion of three existing production facilities as well as the construction of one new production facility to support our business growth.

Additionally, we also work with selected third-party distilleries which produce base liquor for us strictly in accordance with our specifications and requirements. We use the base liquor produced and provided by these collaborated distilleries to blend into our baijiu products. These collaborated distilleries provided us with approximately 7,404 tons, 20,546 tons and 7,817 tons of sauce aroma base liquor in 2020, 2021 and 2022, respectively. As we continue to build additional production facilities to enhance our production capacity, we expect to gradually reduce sourcing base liquor from these collaborated distilleries. See "Business — Production Facilities — Collaborated Production of Base Liquor" for additional information.

Our Ability to Manage Costs and Improve Operational Efficiency

The profitability of our business depends largely on our ability to effectively control costs and enhance operational efficiency. Our cost of sales consists primarily of costs incurred in connection with baijiu production. We typically enter into standard supply agreements with our suppliers to ensure sufficient and quality supplies on favorable terms. We generally do not enter into long-term supply agreements with fixed price arrangements. The prices of raw materials and packaging materials are determined principally by market forces and changes in governmental policies, as well as our bargaining power with our suppliers, which are typically set forth in the supply agreements. We do not purchase any hedging contracts in relation to commodity prices and mainly leverage our procurement control system to maintain our profitability.

Cost of sales amounted to RMB1,145.8 million, RMB2,371.8 million and RMB2,617.0 million in 2020, 2021 and 2022, respectively. Our cost of sales as a percentage of total revenue decreased from 47.8% in 2020 to 46.5% in 2021, and further to 44.7% in 2022, as we continued to shift our product mix towards premium to deluxe baijiu products with higher gross margins.

We have adopted diverse measures to mitigate the impact of price fluctuations, including maintaining diversified supply channels, adopting a centralized procurement system to enhance our bargaining power over suppliers, and leveraging our established brand reputation to negotiate more favorable terms. In addition, as we continue to scale our business, we also seek to leverage our improved economies of scale and production automation to reduce operating costs and improve operational efficiency.

Our Ability to Enhance Sales and Marketing Efficiency

Our revenue and business growth hinges upon our ability to effectively grow and manage our baijiu distribution network. Consistent with the industry norm, we primarily rely on our distributors to promote and sell our baijiu products. During the Track Record Period, we had developed a growing distribution network across China to establish and expand our market presence and drive product sales. Currently, our distributors consist of (i) distribution partners, who primarily purchase our baijiu products from us and subsequently distribute them to sub-distributors, which are mainly retailers, such as supermarkets, and tobacco and liquor stores, and end consumers, (ii) store partners, with whom we collaborate to develop featured stores, in which we not only sell our baijiu products, but also offer immersive, engaging consumer experience through versatile events, and (iii) retailers, primarily tobacco and liquor stores, restaurants and supermarkets, which sell our products directly to end consumers in their brick-and-mortar stores. Revenue generated from our distributors accounted for 88.1%, 88.8% and 88.8% of our total revenue in 2020, 2021 and 2022, respectively.

In addition, we have continued to invest in our branding and marketing efforts to drive brand awareness and increase product sales, which we believe is critical to our long-term revenue and business growth and profitability. We adopt a multi-channel branding and marketing strategy, through which we strive to improve marketing efficiency by continuously optimizing our marketing channels. For example, we have established three featured distilleries open for consumers' tour and a nationwide network of featured stores, in which consumers can have in-person experience of baijiu making, blending and tasting. Additionally, to adapt to the emergence of social media, we also place significant value on online marketing initiatives and campaigns, and increasingly work with social media platforms, such as Douyin, Weixin and Weibo, to convey our brand propositions and encourage spreading of our brand names.

During the Track Record Period, selling and distribution expenses, which consisted primarily of employee compensation for our in-house sales staff and expenses associated with our marketing and promotion activities, constituted a significant portion of our total operating expenses. Selling and distribution expenses amounted to RMB402.9 million, RMB1,020.5 million and RMB1,342.1 million in 2020, 2021 and 2022, respectively, representing 16.8%, 20.0% and 22.9% of our total revenue for the same periods. We seek to continue to improve our marketing and branding efficiency by optimizing our marketing channels to reach target consumers more cost-effectively, and encouraging word-of-mouth referrals to broaden our consumer coverage.

Consumption Taxes

Consumption taxes account for a large proportion of the cost of baijiu products charged to manufacturers in China. Pursuant to the Interim Regulations on Consumption Tax, the consumption tax rate applicable to baijiu products is 20% plus a fixed consumption tax (RMB 0.5/500g (or 500ml)). See "Regulatory Overview — Laws and Regulations Related to Taxation — Consumption Tax" for details. Increases in consumption and other indirect taxes applicable to our baijiu products either on an absolute basis or relative to the levels applicable to other beverages tend to adversely affect our revenue or profitability, both by reducing overall consumption and by encouraging consumers to switch to lower-taxed categories of beverages. These increases may also adversely affect the affordability of our baijiu products and our ability to raise prices.

SEASONALITY

Our business is subject to seasonal fluctuations. We typically experience higher products sales during holidays and festival seasons in a year, most notably around the Spring Festival and the Mid-Autumn Festival. See also "Risk Factors — Risks Relating to Our Business and Industry — We may be subject to seasonal fluctuations in consumer demand."

THE IMPACTS OF AND OUR RESPONSES TO COVID-19

Since the end of December 2019, the outbreak of a novel strain of coronavirus, or COVID-19, has materially and adversely affected the Chinese and global economy. In response to the COVID-19 pandemic, including the recurrence of the Omicron variant of COVID-19 since the beginning of 2022 across China, the PRC government imposed mandatory quarantine, closure of workplaces and facilities, travel restriction and other related measures. These measures caused a decline in social networking and business activities, which in turn had adverse impacts on the demand of our baijiu products.

The COVID-19 outbreak caused temporary disruptions to our business operations in early 2020. As the social and market conditions in China have continued to improve since late March 2020, when the COVID-19 pandemic was substantially brought under control, our business experienced rapid recovery in 2020. Our business continued to grow steadily throughout 2021, despite clusters of COVID-19 confirmed cases having been reported from time to time in various cities across China. In 2021, our revenue further grew to reach RMB5,101.6 million, as compared to RMB2,398.9 million in 2020. Our profitability also improved in 2021, with net profit increasing to RMB1,032.2 million from RMB520.1 million in 2020.

Since the beginning of 2022, the Omicron variant of COVID-19 has rebounded in China, which resulted in city-wide lockdowns, including those in which our production facilities and warehouses are located. As a result, our normal business operations were adversely impacted to varying degree:

- *Baijiu production*. To the extent our production facilities were ordered to shut down temporarily to curb the spread of COVID-19, our baijiu production in the affected production facilities was suspended. Nevertheless, our production volume continued to grow in 2022 due to our expanding production capacity.

- *Product sales*. Reduced social activities amid new COVID-19 outbreaks, coupled with the gloomy macroeconomic conditions across the world, have resulted in a temporary fluctuation in baijiu consumption, especially premium baijiu products on which we focus. In addition, due to travel restrictions imposed by local governments across China, we experienced delays in certain product deliveries.

- *Sales and marketing*. Heightened epidemic prevention measures also limited our sales and marketing initiatives and campaigns, such as distillery tours and baijiu tasting events, in the affected cities.

Furthermore, while the fourth quarter is usually a peak season in a year for baijiu sales as Chinese people are anticipating family and friends gatherings during the upcoming New Year holidays and the Spring Festival, China's baijiu industry experienced tough times in the fourth quarter of 2022 amid the most difficult pandemic situation in China since the initial outbreak of COVID-19. Another round of COVID-19 outbreaks throughout October and November 2022 resulted in multiple cities across China under lock-down. China began to modify its zero-COVID policy in late 2022, and most of the travel restrictions and quarantine requirements were lifted in December 2022. There were significant surges of COVID-19 cases in many cities in China subsequently. The rapid spread of COVID-19 virus in a relatively short period of time compelled people to stay at home and reduce banquets and social gatherings, which further caused temporary reductions in baijiu consumption, according to Frost & Sullivan.

Against the backdrop of the challenging pandemic situation, our normal business operations were also negatively affected throughout the fourth quarter of 2022. During the extensive lock-downs of the cities in China, we were not able to promote our baijiu products as planned to the extent customer visits or onsite events are required. The mandatory closures of the featured stores and other points-of-sale where our baijiu products are on sale during this period also resulted in a decline in product sales and revenue. With respect to baijiu production, certain of our production facilities were temporarily shut down and/or operated with limited capacity amid the COVID-19 pandemic. As a result of the foregoing, our revenue growth slowed throughout 2022, increasing by 14.8% from 2021 to 2022, as compared to 112.7% from 2020 to 2021, and our sales for the first two months of 2023 were adversely affected. For the two months ended February 28, 2023, our shipment volume amounted to 5,150 tons and we recorded gross sales of RMB1,532.3 million.

Throughout the COVID-19 pandemic, we have taken various measures to mitigate the impacts of the COVID-19 pandemic on our baijiu production, product sales, supply chain and our staff. Such remedial measures include organizing online consumer events to improve consumer engagement, mobilizing internal and external resources to ensure logistics and securing resources supply. In addition, we have also implemented various precautionary policies to ensure the safety of our employees working remotely or onsite.

There remain significant uncertainties associated with the COVID-19 pandemic, including with respect to the ultimate spread of the virus, the severity and duration of the pandemic and further actions that may be taken by governmental authorities around the world including China to contain the virus. Moreover, the full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations, cash flows and financial condition will depend on future developments that are highly uncertain and cannot be accurately predicted. See "Risk Factors — Risks Relating to Our Business and Industry — The COVID-19 pandemic adversely affected, and may continue to affect, the demand for our products, our business operations and financial conditions."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continuously evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events which are deemed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes to these estimates and assumptions in the foreseeable future.

Set forth below are accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Further details are set forth in Notes 2 and 3 to the Accountants' Report included in Appendix I to this prospectus.

Revenue

Income is classified by us as revenue when it arises from the sale of goods or the provision of services in the ordinary course of our business.

Revenue from contracts with customers is recognized when control over a product is transferred to the customer at the amount of promised consideration to which we are expected to be entitled. Under IFRS 15, a customer is defined as a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Our Group's distributors act in the capacity of principals when dealing with end customers since they (i) make substantial efforts to conclude such sales by themselves, (ii) are able to direct the use of our baijiu products and (iii) obtain substantially all of the remaining benefits. Accordingly, our Group considers its distributors as customers for revenue recognition under IFRS 15. With respect to customers that are our distribution partners or featured stores, we typically recognize revenue at the time point that our distribution partners or featured stores, as the case may be, ship out the baijiu products, pursuant to terms and conditions of agreements that we enter into with them. With respect to customers that are our retailers, we recognize revenue at the time point that our retailers acknowledge the receipt of the baijiu products. Revenue excludes value added tax or other sales taxes and is after deduction of any volume rebates.

We are principally engaged in the brewing and sales of baijiu products. Revenue from sales of baijiu products is recognized at the point in time when we transfer control over the products to the customers. We determine the point of transfer of control according to the contract terms agreed with different types of customers.

Retrospective volume rebates may be provided to certain customers when their purchases reach an agreed threshold. Such volume rebates give rise to variable consideration. We use an expected value approach to estimate variable consideration based on our current and future performance expectations and all information that is reasonably available. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. At the time of sale of baijiu products, we recognize revenue after taking into account adjustment to transaction price arising from rebates as mentioned above. A refund liability is recognized for the expected rebates and is included in other payables and accruals. We review the estimate of expected volume rebates at each reporting date and update the amounts of revenue and refund liability accordingly. During the Track Record Period, we did not make any subsequent material adjustments to the initial estimates for volume rebates after the end of each financial year.

Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production or in the form of materials or supplies to be consumed in the production process.

Inventories are carried at the lower of cost and net realizable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Trade and Other Receivables

A receivable is recognized when we have an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

	Estimated useful lives
Right-of use assets	Over the terms of leases
Plant and buildings	20 years
Machine and equipment	3 – 10 years
Office equipment and others	3 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest expense capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous period.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, we control the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if we have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, we intend either to settle on a net basis, or to realizes the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income tax levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

Convertible and redeemable financial instrument

We issued redeemable preferred shares, in which elements of conversion options and warrant are embedded.

The instrument is classified as a liability, because in case of occurrence of triggering events, which are beyond control of us, the instrument is redeemable at the option of the holder within specified periods. The liability is initially recognized and subsequently remeasured at fair value which represents the settlement that would be triggered by the event with the highest settlement outcome. The gain or loss on remeasurement is recognized immediately in profit or loss.

Critical Accounting Estimates and Judgments

Expected credit loss for receivables

The credit losses for trade and other receivables are based on assumptions about the expected loss rates. We use judgement in making these assumptions and selecting the inputs to the impairment calculation, which are based on our past collection history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 25(a) to the Accountants' Report set forth in Appendix I to this prospectus. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional loss allowances in future periods.

Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired," and an impairment loss may be recognized in accordance with accounting policy for impairment of long-lived assets as described in Note 2(h)(ii) to the Accountants' Report set forth in Appendix I to this prospectus. These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable.

When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to the level of revenue and amount of operating costs. Our Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. Our Group reviews the estimated useful lives and residual values, if any, of the property, plant and equipment regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of useful lives and residual values, if any, are based on the historical experience with similar assets and taking into account anticipated changes on how such assets are to be deployed. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Fair value of financial instruments issued to an investor

The fair value of financial instruments issued to an investor at the dates of issue and the end of the reporting periods were determined based on the valuation performed by an independent valuer, using valuation techniques. We use our judgments to select a variety of methods and make assumptions that are mainly based on market conditions existing at the respective valuation dates. As disclosed in Note 25(d)(i) in the Accountants' Report in Appendix I for this prospectus, our Company has used equity allocation model to determine the fair values of the financial liabilities arising from the preference shares and binomial lattice model to determine the fair values of the financial liabilities arising from the warrants, which involved the use of significant accounting estimates and judgments.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue
	(in thousands, except percentages)					
Revenue	2,398,915	100.0	5,101,593	100.0	5,855,917	100.0
Cost of sales	(1,145,794)	(47.8)	(2,371,847)	(46.5)	(2,616,987)	(44.7)
Gross profit	**1,253,121**	**52.2**	**2,729,746**	**53.5**	**3,238,930**	**55.3**
Other income	50,268	2.1	47,660	0.9	83,174	1.4
Selling and distribution expenses	(402,873)	(16.8)	(1,020,510)	(20.0)	(1,342,057)	(22.9)
Administrative expenses	(157,906)	(6.6)	(289,344)	(5.7)	(381,135)	(6.5)
Impairment loss on trade receivables	(1,308)	(0.1)	(982)	(0.0)	(3,720)	(0.1)
Profit from operations	741,302	30.9	1,466,570	28.7	1,595,192	27.2
Finance costs	(39,743)	(1.7)	(36,420)	(0.7)	(29,445)	(0.5)
Changes in fair value in financial instruments issued to an investor	–	–	(21,617)	(0.4)	(130,668)	(2.2)
Profit before taxation	**701,559**	**29.2**	**1,408,533**	**27.6**	**1,435,079**	**24.5**
Income tax	(181,471)	(7.6)	(376,336)	(7.4)	(405,213)	(6.9)
Profit attributable to equity shareholders of the Company for the year	**520,088**	**21.7**	**1,032,197**	**20.2**	**1,029,866**	**17.6**
Other comprehensive income for the year (after tax)						
Items that may be reclassified subsequently to profit or loss:						
- Exchange differences on translation of financial statements into presentation currency	–	–	9,383	0.2	(837,382)	(14.3)
Total comprehensive income attributable to equity shareholder of the Company for the year	**520,088**	**21.7**	**1,041,580**	**20.4**	**192,484**	**3.3**

Non-IFRS Measures

To supplement our consolidated financial statements that are presented in accordance with IFRS, 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. 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.

	For the year ended December 31,		
	2020	**2021**	**2022**
	(RMB in thousands, except percentages)		
Profit attributable to equity shareholders of the Company for the year	**520,088**	**1,032,197**	**1,029,866**
Add:			
Listing expenses[1]	—	17,012	36,755
Changes in fair value in financial instruments issued to an investor[2]	—	21,617	130,668
Adjusted net profit (non-IFRS measure)	**520,088**	**1,070,826**	**1,197,289**
Adjusted net profit margin (non-IFRS measure)	**21.7%**	**21.0%**	**20.4%**

Notes:

(1) Listing expenses relate to this Global Offering of the Company.

(2) Changes in fair value in financial instruments issued to an investor arises from the changes in the fair value of our Series A Preferred Shares and warrants issued to Zest Holdings in connection with the Pre-IPO Investments. These changes in financial instruments are non-cash in nature. The warrants were terminated in June 2022 and accordingly we will no longer recognize any change in the fair value thereof. Upon completion of the Listing, the Series A Preferred Shares will be automatically converted into ordinary shares of our Company, and no profit or loss due to changes in the financial instruments will be recognized. As a result, this adjusted item will no longer exist after the Listing.

Statement of financial position items is translated into Renminbi at the closing foreign exchange rates at the end of each reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve. We recorded losses on exchange differences on translation of financial statements into presentation currency of RMB837.4 million in 2022, as compared to gains on exchange differences on translation of financial statements into presentation currency of RMB9.4 million in 2021. For details, see Note 2(s) to the Accountants' Report included in Appendix I to this prospectus.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

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.

We generally recognize revenue when we transfer the control over our baijiu products to our customers. For baijiu products sold through our distributors particularly, revenue is recognized at an amount equaling to the number of baijiu products sold multiplying the unit price previously agreed between our distributors and us, net of volume rebates we grant to our distributors pursuant to our distribution arrangements. For additional information about our revenue recognition policies, see " — Critical Accounting Policies and Estimates — Revenue."

During the Track Record Period, we promoted our baijiu products primarily under four major brands, namely *Zhen Jiu*, *Li Du*, *Xiang Jiao* and *Kai Kou Xiao*, targeting different consumer preferences and geographic areas. The following table sets forth a breakdown of our sales volume and average selling price by baijiu brand, and our revenue in absolute amounts and as percentages of total revenue by baijiu brand, for the periods indicated.

	For the year ended December 31,											
	2020				2021				2022			
	Sales Volume (tons)	Revenue (RMB in thousands)	Average Selling Prices (RMB in thousands/ ton)	% of Total Revenue	Sales Volume (tons)	Revenue (RMB in thousands)	Average Selling Prices (RMB in thousands/ ton)	% of Total Revenue	Sales Volume (tons)	Revenue (RMB in thousands)	Average Selling Prices (RMB in thousands/ ton)	% of Total Revenue
Zhen Jiu	6,941	1,345,546	194	56.1	14,761	3,487,573	236	68.4	12,856	3,822,696	297	65.3
Li Du	1,687	359,225	213	15.0	2,750	649,954	236	12.7	2,076	886,850	427	15.1
Xiang Jiao	589	394,879	670	16.5	876	605,569	691	11.9	1,075	712,791	663	12.2
Kai Kou Xiao	1,920	172,033	90	7.1	2,484	256,579	103	5.0	3,011	338,675	112	5.8
Others*	8,305	127,232	15	5.3	5,427	101,918	19	2.0	4,855	94,905	20	1.6
Total	**19,443**	**2,398,915**	**123**	**100.0**	**26,299**	**5,101,593**	**194**	**100.0**	**23,875**	**5,855,917**	**245**	**100.0**

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

During the Track Record Period, revenue generated from our flagship brand *Zhen Jiu* accounted for a majority of our total revenue. In 2020, 2021 and 2022, we derived 56.1%, 68.4% and 65.3% of our total revenue from *Zhen Jiu*, respectively.

Average selling prices for our *Zhen Jiu, Li Du* and *Kai Kou Xiao* products continued to grow during the Track Record Period due to our brand premiumization efforts. Average selling prices for our *Xiang Jiao* products decreased from 2021 to 2022, primarily due to price adjustments as part of our sales campaigns amid the COVID-19 pandemic.

In addition, our baijiu product portfolio features a wide range of recommended retail prices, catering to the demand and preferences of different consumer demographics. The following table sets forth a breakdown of our revenue by price range, in absolute amounts and as percentages of total revenue, for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Deluxe	378,375	15.8	908,090	17.8	1,438,700	24.6
Premium	862,712	36.0	1,933,552	37.9	2,388,084	40.8
Mid-range and below	1,157,828	48.2	2,259,951	44.3	2,029,133	34.6
Total	**2,398,915**	**100.0**	**5,101,593**	**100.0**	**5,855,917**	**100.0**

We have strategically continued to optimize and premiumize our product portfolio to drive long-term growth and profitability. As a result, revenue generated from our premium and deluxe baijiu products continued to grow both in absolute amounts and as percentages of our total revenue during the Track Record Period.

For additional information on our baijiu brands and product offerings, see "Business — Our Brands and Products."

Cost of Sales

The following table sets forth a breakdown of our cost of sales by nature, in absolute amounts and as percentages of total cost of sales, for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Cost of production materials	496,366	43.3	989,474	41.7	1,125,841	43.0
Cost of packaging materials	245,443	21.4	545,852	23.0	519,317	19.9
Tax and surcharges	377,969	33.0	786,611	33.2	913,485	34.9
Transportation cost	26,016	2.3	49,910	2.1	58,344	2.2
Total	**1,145,794**	**100.0**	**2,371,847**	**100.0**	**2,616,987**	**100.0**

During the Track Record Period, our cost of sales by nature 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. See "Industry Overview — Major Raw Material and Cost Analysis" for an overview of how the costs of certain raw materials and labor in China have fluctuated historically.

Our tax and surcharges primarily represent consumption tax charged in connection with sales of our baijiu products. According to the relevant PRC taxation laws and regulations, the applicable consumption tax rate of baijiu is 20% plus the fixed consumption tax (RMB 0.5/500g (or 500ml)), and baijiu producer should pay consumption tax when the baijiu products are sold. For baijiu producer which sells baijiu products to its related sales companies and the intra-group selling price is lower than 70% of the external selling price (excluding VAT), i.e. the price at which the sales companies sell to external customers, the tax authority shall determine the lowest taxable price for consumption tax within the range between 50% and 70% of the retail price, taking into account factors including production scale, liquor brand, and profitability. We followed the aforementioned regulations and practices. The intra-group selling price of baijiu producers of our Group to our sales companies, which is set at about 60% of selling prices to customers of our Group, is adopted as the taxable price in the calculation of consumption tax. As a result, our consumption tax to revenue ratio was 12.6%, 12.7% and 12.8% in 2020, 2021 and 2022, respectively. As advised by our PRC Legal Advisor, there has been no administrative penalty that was imposed on our Group relating to the consumption tax during the Track Record Period.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our costs of sales on our profit before taxation for the periods indicated, assuming all other factors affecting our profitability had remained unchanged.

	-5%	-10%	-15%	5%	10%	15%
			(RMB in thousands)			
Hypothetical changes in cost of sales						
Year ended December 31, 2020	(57,290)	(114,579)	(171,869)	57,290	114,579	171,869
Year ended December 31, 2021	(118,592)	(237,185)	(355,777)	118,592	237,185	355,777
Year ended December 31, 2022	(130,849)	(261,699)	(392,548)	130,849	261,699	392,548
Changes in profit before taxation						
Year ended December 31, 2020	57,290	114,579	171,869	(57,290)	(114,579)	(171,869)
Year ended December 31, 2021	118,592	237,185	355,777	(118,592)	(237,185)	(355,777)
Year ended December 31, 2022	130,849	261,699	392,548	(130,849)	(261,699)	(392,548)

Gross Profit and Gross Margin

As a result of the foregoing, we recorded gross profit of RMB1,253.1 million, RMB2,729.7 million and RMB3,238.9 million in 2020, 2021 and 2022, respectively, representing gross margin of 52.2%, 53.5% and 55.3% during the same periods.

The following table sets forth a breakdown by brand of our gross profit, in absolute amounts and as percentages of revenue, or gross margins, for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Zhen Jiu	708,302	52.6	1,800,011	51.6	2,097,231	54.9
Li Du	245,865	68.4	434,064	66.8	575,902	64.9
Xiang Jiao	232,557	58.9	388,497	64.2	429,849	60.3
Kai Kou Xiao	63,351	36.8	102,032	39.8	130,510	38.5
Others*	3,046	2.4	5,142	5.1	5,438	5.7
Total	**1,253,121**	**52.2**	**2,729,746**	**53.5**	**3,238,930**	**55.3**

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

Gross margins vary across our baijiu brands primarily due to different product mixes. Since baijiu products at higher price points generally have higher gross margins attributable mainly to their higher selling prices, our baijiu brands that feature more products priced at high points have a higher level of profitability.

The following table sets forth a breakdown by price range of our gross profit, in absolute amounts and as percentages of revenue, or gross margins, for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Deluxe	256,287	67.7	610,752	67.3	957,793	66.6
Premium	576,232	66.8	1,277,018	66.0	1,507,770	63.1
Mid-range and below	420,602	36.3	841,976	37.3	773,367	38.1
Total	**1,253,121**	**52.2**	**2,729,746**	**53.5**	**3,238,930**	**55.3**

Selling and Distribution Expenses

Our selling and distribution expenses consist 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.

The following table sets forth a breakdown of our selling and distribution expenses, in absolute amounts and as percentages of total selling and distribution expenses, for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Advertisement expenses	241,708	60.0	669,215	65.6	665,588	49.6
Employee compensation	125,356	31.1	280,717	27.5	592,027	44.1
Travel and office expenses	27,836	6.9	46,285	4.5	44,747	3.3
Others	7,973	2.0	24,293	2.4	39,695	3.0
Total	**402,873**	**100.0**	**1,020,510**	**100.0**	**1,342,057**	**100.0**

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, (v) listing expenses relating to the Global Offering, and (vi) others.

The following table sets forth a breakdown of the components of our administrative expenses, in absolute amounts and as percentages of total administrative expenses, for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Employee compensation	87,757	55.6	162,246	56.1	192,265	50.5
Office and maintenance expenses	26,368	16.7	43,898	15.2	39,739	10.4
Depreciation and amortization	20,556	13.0	23,067	8.0	44,736	11.7
Professional service fees	1,612	1.0	8,559	3.0	19,501	5.1
Listing expenses	–	–	17,012	5.9	36,755	9.7
Others	21,613	13.7	34,562	11.8	48,139	12.6
Total	**157,906**	**100.0**	**289,344**	**100.0**	**381,135**	**100.0**

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 from sales of by-products and semi-finished products, such as lees, packaging materials and base liquor, which are produced or left over during the course of baijiu production, (iv) fees from distributors for breach of contracts, (v) net losses on disposal of property, plant and equipment, and (vi) others.

The following table sets forth a breakdown of our other income for the periods indicated.

	For the year ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Government grants	22,663	21,189	20,440
Interest income	2,783	12,705	30,767
Net income from sales of by-products and semi-finished products	24,680	15,559	21,020
Fees from distributors for breach of contracts	267	4,111	8,990
Net loss on disposal of property, plant and equipment	(1,599)	(6,948)	(909)
Others	1,474	1,044	2,866
Total	**50,268**	**47,660**	**83,174**

Finance Costs

Our finance costs consist of interest expenses on bank and other borrowings and lease liabilities. We recorded finance costs of RMB39.7 million, RMB36.4 million and RMB29.4 million in 2020, 2021 and 2022, respectively.

Changes in Fair Value in Financial Instruments Issued to An Investor

Changes in fair value in financial instruments issued to an investor consist of changes in the fair value of our Series A Preferred Shares and warrants, both in connection with the Pre-IPO Investments. Changes in the fair value of our Series A Preferred Shares arose primarily from the Series A Preferred Shares we issued to Zest Holdings in connection with our series A round financing. Prior to the Global Offering, such Series A Preferred Shares have not been traded in an active market and their value at each respective reporting date is determined using valuation techniques. Upon the completion of the Global Offering, all of such Series A Preferred Shares will be automatically converted to ordinary shares, and we will no longer recognize any change in the fair value in respect of them. Changes in the fair value of our warrants arose primarily from the warrants we issued to Zest Holdings in connection with our series A round financing, by exercising which Zest Holdings may subscribe for our preferred shares at the pre-determined enterprise value of our Company. The warrants were classified as derivative financial instruments and were initially recognized at fair value, and subsequently re-measured at fair value through profit or loss. In June 2022, all rights under the warrants were terminated. For additional information, see Note 23 to the Accountants' Report included in Appendix I to this prospectus, and the section headed "History, Development and Corporate Structure — Pre-IPO Investments."

Income Tax

We recorded income tax expense of RMB181.5 million, RMB376.3 million and RMB405.2 million in 2020, 2021 and 2022, respectively. As of the Latest Practicable Date, we did not have any material dispute with any tax authority.

We are incorporated as an exempted company and as such is not subject to Cayman Islands taxation. Our subsidiary incorporated in the BVI is not subject to any income tax.

Our subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax rate of 16.5% during the Track Record Period. No provision for Hong Kong profits tax has been made, as our subsidiary incorporated in Hong Kong did not have assessable profits during the Track Record Period.

Pursuant to the PRC's Great Western Development policies, our subsidiary Tibet Xiangjiao established in the western region is eligible for a preferential Corporate Income Tax ("**CIT**") tax rate of 15%. Except for such preferential treatment, other subsidiaries established in the PRC are subject to the PRC CIT rate of 25% during the Track Record Period.

Profit for the Year

As a result of the foregoing, our profit attributable to equity shareholders of the Company for the year amounted to RMB520.1 million, RMB1,032.2 million and RMB1,029.9 million in 2020, 2021 and 2022, respectively.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Revenue

Despite the impacts from the COVID-19 pandemic, our revenue increased by 14.8% from RMB5,101.6 million in 2021 to RMB5,855.9 million in 2022, attributable primarily to our expanded sales network, and increasing brand recognition among consumers across China.

Revenue by Baijiu Brand

In 2022, all of our four major baijiu brands experienced revenue growths.

- Revenue generated from *Zhen Jiu* increased by 9.6% from RMB3,487.6 million in 2021 to RMB3,822.7 million in 2022, primarily because we sold an increasing amount of premium and deluxe products.

- Revenue generated from *Li Du* increased by 36.4% from RMB650.0 million in 2021 to RMB886.9 million in 2022, primarily due to our constantly expanding distribution network and customer coverage to enhance its brand presence and awareness across China, especially in regions outside of Jiangxi. Within our selected *Li Du* product portfolio, the increasing revenue contributed by our popular products, such as Li Du Sorghum 1308 (李渡高粱1308) and Li Du Sorghum 1975 (李渡高粱1975), was the major driving force for *Li Du*'s revenue growth during the period.

- Revenue generated from *Xiang Jiao* increased by 17.7% from RMB605.6 million in 2021 to RMB712.8 million in 2022, primarily due to the rising sales volume as a result of increasing market acceptance and expanded sales and distribution network. In particular, our popular products, such as Xiang Jiao Long Jiang (湘窖·龍匠) Series, continued to remain popular among customers during this period, driving the product sales and revenue growth of *Xiang Jiao*.

- Revenue generated from *Kai Kou Xiao* increased by 32.0% from RMB256.6 million in 2021 to RMB338.7 million in 2022, primarily due to the rising sales volume as a result of our enhanced sales and marketing efforts.

Revenue by Price Range

To capitalize on tremendous opportunities in China's premium and deluxe baijiu markets and to achieve long-term profitable growth, we have continued to premiumize our baijiu brands by optimizing our product portfolio and expanding our premium and deluxe product offerings. Revenue generated from our premium baijiu products increased by 23.5% from RMB1,933.6 million in 2021 to RMB2,388.1 million in 2022. As a percentage of total revenue, our premium products' revenue increased from 37.9% in 2021 to 40.8% in 2022. Revenue generated from our deluxe baijiu products increased by 58.4% from RMB908.1 million in 2021 to RMB1,438.7 million in 2022. As a percentage of total revenue, our deluxe products' revenue increased from 17.8% in 2021 to 24.6% in 2022. The increases in revenue generated from our premium and deluxe baijiu products were primarily driven by our popular products, which demonstrated our increasing brand awareness and market acceptance. Revenue generated from our mid-range and below baijiu products decreased from RMB2,260.0 million in 2021 to RMB2,029.1 million in 2022, mainly because we placed more focus on growing our premium and deluxe baijiu products. Revenue generated from our mid-range and below baijiu products accounted for 44.3% and 34.6% of our total revenue in 2021 and 2022, respectively.

Cost of Sales

Our cost of sales increased by 10.3% from RMB2,371.8 million in 2021 to RMB2,617.0 million in 2022, which was generally in line with our overall business growth. Specifically, the increase in cost of sales was attributable primarily to the increases in tax and surcharges of RMB126.9 million and cost of production materials of RMB136.4 million, in line with our revenue growth. Our cost of sales accounted for 46.5% and 44.7% of our total revenue in 2021 and 2022, respectively.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 18.7% from RMB2,729.7 million in 2021 to RMB3,238.9 million in 2022. Our gross margin increased from 53.5% in 2021 to 55.3% in 2022, driven primarily by the change in product mix with increased revenue contributions from the sales of premium and deluxe baijiu products, which typically have higher gross margins, as part of our efforts to premiumize our brands.

Gross Margin by Baijiu Brand

Gross margin for our *Zhen Jiu* products increased from 51.6% in 2021 to 54.9% in 2022, attributable primarily to the change in product mix with increased revenue contributions from the sales of premium and deluxe baijiu products, which typically have higher gross margins. Gross margin for our *Li Du* products remained relatively stable at 66.8% and 64.9% in 2021 and 2022, respectively. Gross margin for *Xiang Jiao* products decreased from 64.2% in 2021 to 60.3% in 2022 primarily due to price adjustments as part of our sales campaigns amid the COVID-19 pandemic. Gross margin for *Kai Kou Xiao* products remained relatively stable at 39.8% and 38.5% in 2021 and 2022, respectively.

Gross Margin by Price Range

Gross margin for our deluxe baijiu products decreased from 67.3% in 2021 to 66.6% in 2022, and gross margin for our premium baijiu products decreased from 66.0% in 2021 to 63.1% in 2022. The fluctuation of gross margins for our premium and deluxe baijiu products over this period was primarily due to change in product mix within their respective product portfolios. In 2021, we launched and promoted certain of our baijiu products with lower gross margins to drive product sales amid COVID-19 pandemic. By contrast, gross margin for our mid-range and below baijiu products increased from 37.3% in 2021 to 38.1% in 2022, attributable primarily to the product mix shifting towards baijiu products at higher price points within our mid-range and below product portfolio.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 31.5% from RMB1,020.5 million in 2021 to RMB1,342.1 million in 2022, primarily due to our enhanced marketing and distribution efforts to promote brand awareness. Specifically, the increase was mainly attributable to the increases in employee compensation of RMB311.3 million, attributable primarily to the increasing sales and distribution personnel headcounts to grow our retailer sales channel, improve the quality of our consumer services and support our distribution network and business expansion. Our selling and distribution expenses accounted for 20.0% and 22.9% of our total revenue in 2021 and 2022, respectively.

Administrative Expenses

In line with our business expansion, our administrative expenses increased by 31.7% from RMB289.3 million in 2021 to RMB381.1 million in 2022. Specifically, the increase was primarily due to the increases in (i) depreciation and amortization of RMB21.7 million, (ii) employee compensation of RMB30.0 million, attributable primarily to the rising administrative staff headcounts to support our business expansion, and (iii) listing expenses of RMB19.7 million in connection with the Global Offering. Our administrative expenses accounted for 5.7% and 6.5% of our total revenue in 2021 and 2022, respectively.

Other Income

Our other income increased from RMB47.7 million in 2021 to RMB83.2 million in 2022, primarily due to the increase in (i) interest income of RMB18.1 million from our increased bank deposit, and (ii) net income from sales of by-products and semi-finished products of RMB5.5 million, which was generally in line with the expansion in our baijiu production. The increase in other income was partially offset by the decrease in government grants of RMB0.7 million as such grants we received from local governments in China were one-off in nature and may therefore fluctuate from time to time.

Profit from Operations

As a result of the foregoing, our profit from operations amounted to RMB1,595.2 million in 2022, as compared to that of RMB1,466.6 million in 2021.

Finance Costs

Our finance costs decreased from RMB36.4 million in 2021 to RMB29.4 million in 2022, primarily due to the decrease in interest on bank and other borrowings of RMB8.0 million.

Changes in Fair Value in Financial Instruments Issued to An Investor

In 2022, we recorded a loss of RMB130.7 million in changes in fair value in financial instruments issued to an investor, as compared to RMB21.6 million in 2021, which was attributable primarily to changes in the valuation of our Company driven by our strong business growth and improved business outlook.

Profit before Taxation

As a result of the foregoing, we recorded profit before taxation of RMB1,408.5 million and RMB1,435.1 million for 2021 and 2022, respectively.

Income Tax

Our income tax expenses increased from RMB376.3 million in 2021 to RMB405.2 million in 2022, primarily because the loss on the changes in fair value in financial instruments issued to an investors of RMB130.7 million that we recorded in 2022 were not tax deductible.

Profit for the Year

As a result of the foregoing, we recorded profit attributable to equity shareholders of the Company for the year of RMB1,032.2 million and RMB1,029.9 million in 2021 and 2022, respectively.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Our revenue increased significantly from RMB2,398.9 million in 2020 to RMB5,101.6 million in 2021, attributable primarily to our expanded sales network and increasing brand recognition among consumers across China. In particular, our revenue increase in 2021 had ridden on the growth momentum of the entire sauce aroma baijiu market in China due to increased consumer demands. For additional information, see "Industry Overview — Overview of China's Baijiu Industry — Market Size of China's Baijiu Industry."

Revenue by Baijiu Brand

In 2021, all of our four major baijiu brands experienced substantial revenue growths.

- Revenue generated from *Zhen Jiu* increased significantly from RMB1,345.5 million in 2020 to RMB3,487.6 million in 2021, primarily due to the rising sales volume from 6,941 tons in 2020 to 14,761 tons in 2021, which demonstrated our increasing brand awareness and market acceptance. Due to this strong growth in revenue, *Zhen Jiu* contributed 68.4% of our total revenue in 2021, as compared to 56.1% in 2020.

- Revenue generated from *Li Du* increased by 80.9% from RMB359.2 million in 2020 to RMB650.0 million in 2021, mainly due to the rising sales volume from 1,687 tons in 2020 to 2,750 tons in 2021, driven primarily by the market success of our popular products, including Li Du Sorghum 1308 (李渡高粱1308) and Li Du Sorghum 1975 (李渡高粱1975).

- Revenue generated from *Xiang Jiao* increased by 53.4% from RMB394.9 million in 2020 to RMB605.6 million in 2021, attributable primarily to the rising sales volume from 589 tons in 2020 to 876 tons in 2021, as one of our popular products, namely Xiang Jiao Long Jiang (湘窖·龍匠) Series, which was launched in 2020, achieved initial market success during 2021.

- Revenue generated from *Kai Kou Xiao* increased by 49.1% from RMB172.0 million in 2020 to RMB256.6 million in 2021, attributable primarily to the rising sales volume from 1,920 tons in 2020 to 2,484 tons in 2021, as a result of our enhanced sales and marketing efforts.

Revenue by Price Range

Driven by our brand premiumization initiatives, revenue generated from our premium and deluxe baijiu products increased both in absolute amounts and as a percentage of total revenue from 2020 to 2021. Revenue generated from our premium baijiu products increased from RMB862.7 million in 2020 to RMB1,933.6 million in 2021. As a percentage of total revenue, revenue generated from our premium baijiu products increased from 36.0% in 2020 to 37.9% in 2021. Revenue generated from our deluxe baijiu products increased from RMB378.4 million in 2020 to RMB908.1 million in 2021. As a percentage of total revenue, revenue generated from our deluxe baijiu products increased from 15.8% in 2020 to 17.8% in 2021. The increases in revenue generated from our premium and deluxe baijiu products were primarily because we continued to ramp up product sales through our extensive and effective sales and distribution efforts. Revenue generated from our mid-range and below baijiu products grew from RMB1,157.8 million in 2020 to RMB2,260.0 million in 2021, primarily due to our constantly diversified and optimized sales and marketing channels.

Cost of Sales

Our cost of sales increased from RMB1,145.8 million in 2020 to RMB2,371.8 million in 2021, which was generally in line with our overall business growth. Specifically, the increase in cost of sales was attributable primarily to the increases in cost of production materials of RMB493.1 million and tax and surcharges of RMB408.6 million, driven by our growing product sales. Our cost of sales accounted for 47.8% and 46.5% of our total revenue in 2020 and 2021, respectively.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 117.8% from RMB1,253.1 million in 2020 to RMB2,729.7 million in 2021. Our gross margin increased from 52.2% in 2020 to 53.5% in 2021, driven primarily by the change in product mix with increased revenue contributions from the sales of premium and deluxe baijiu products, which typically have higher gross margins, as part of our efforts to premiumize our brands.

Gross Margin by Baijiu Brand

Gross margin for *Zhen Jiu* products decreased slightly from 52.6% in 2020 to 51.6% in 2021 primarily because the revenue contribution from our customized *Zhen Jiu* products, which typically have lower gross margins as compared to regular products, increased during the period. This largely offset the growth in *Zhen Jiu* gross margin resulted from our brand premiumization initiative during the same period. Gross margin for *Li Du* products remained relatively stable at 68.4% and 66.8% in 2020 and 2021, respectively. Gross margin for *Xiang Jiao* products increased from 58.9% in 2020 to 64.2% in 2021, primarily because the popular product Xiang Jiao Long Jiang (湘窖·龍匠) Series we introduced in 2020 with higher gross margin, which targets the premium and above market, achieved initial market success in 2021, driving *Xiang Jiao*'s overall profitability. Gross margin for *Kai Kou Xiao* products increased from 36.8% in 2020 to 39.8% in 2021, primarily because revenue contributions from certain products at higher price points within our *Kai Kou Xiao* portfolio increased over the period due to increasing market acceptance, which drove *Kai Kou Xiao*'s overall profitability.

Gross Margin by Price Range

Gross margin for our deluxe baijiu products was 67.7% and 67.3% in 2020 and 2021, respectively. Gross margin for our premium baijiu products was 66.8% and 66.0% in 2020 and 2021, respectively. Gross margin for our mid-range and below baijiu products was 36.3% and 37.3% in 2020 and 2021, respectively. Gross margin for our baijiu products at different price ranges remained relatively stable across 2020 and 2021.

Selling and distribution expenses

Our selling and distribution expenses increased from RMB402.9 million in 2020 to RMB1,020.5 million in 2021, primarily due to our enhanced sales and distribution efforts to promote brand awareness. Specifically, the increase in selling and distribution expenses was mainly attributable to the increases in (i) advertisement expenses of RMB427.5 million to promote our baijiu brands and drive our product sales, and (ii) employee compensation of RMB155.4 million, attributable primarily to the rising sales and distribution personnel headcount to improve the quality of our consumer services and support our distribution network and business expansion. Our selling and distribution expenses accounted for 16.8% and 20.0% of our total revenue in 2020 and 2021, respectively.

Administrative Expenses

In line with our business expansion, our administrative expenses increased by 83.2% from RMB157.9 million in 2020 to RMB289.3 million in 2021. Specifically, the increase was primarily due to the increases in (i) employee compensation of RMB74.5 million, attributable primarily to the rising administrative staff headcount to support our business expansion, and to a lesser extent, the increased average compensation for our administrative staff, and (ii) listing expenses of RMB17.0 million in connection with the Global Offering. Our administrative expenses accounted for 6.6% and 5.7% of our total revenue in 2020 and 2021, respectively.

Other Income

Our other income decreased from RMB50.3 million in 2020 to RMB47.7 million in 2021, primarily due to (i) the decrease in net income from sales of by-products and semi-finished products, and (ii) the increase in net loss on disposal of property, plant and equipment as we demolished certain old facilities used for our production in 2021. The decrease in other income was partially offset by the increase in interest income of RMB9.9 million derived from the proceeds received from our Pre-IPO Investments.

Profit from Operations

As a result of the foregoing, our profit from operations amounted to RMB1,466.6 million in 2021, as compared to that of RMB741.3 million in 2020.

Finance Costs

Our finance costs decreased from RMB39.7 million in 2020 to RMB36.4 million in 2021, primarily due to the decrease in interest from bank and other borrowings of RMB3.9 million.

Changes in Fair Value in Financial Instruments Issued to An Investor

We recorded a loss of RMB21.6 million in changes in fair value in financial instruments issued to an investor in 2021, as compared to nil in 2020. The movement in changes in fair value in financial instruments issued to an investor resulted from changes in the valuation of our Company driven by our strong business growth and improved business outlook.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased from RMB701.6 million in 2020 to RMB1,408.5 million in 2021.

Income Tax

Our income tax expenses increased from RMB181.5 million in 2020 to RMB376.3 million in 2021, which was generally in line with our overall business performance.

Profit for the Year

As a result of the foregoing, we recorded profit attributable to equity shareholders of the Company for the year of RMB520.1 million and RMB1,032.2 million in 2020 and 2021, respectively.

DISCUSSION OF CERTAIN KEY ITEMS FROM OUR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth the selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix I to this prospectus.

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Total non-current assets	829,729	2,330,116	3,812,989
Total current assets	3,816,279	5,314,339	7,245,900
Total assets	**4,646,008**	**7,644,455**	**11,058,889**
Total non-current liabilities	86,232	8,998,403	10,302,118
Total current liabilities	3,430,312	5,460,108	4,571,985
Total liabilities	**3,516,544**	**14,458,511**	**14,874,103**
Net assets/(liabilities)	**1,129,464**	**(6,814,056)**	**(3,815,214)**
Share capital	–	30	30
Reserves	1,129,464	(6,814,086)	(3,815,244)
Total equity/(total equity-deficit)	**1,129,464**	**(6,814,056)**	**(3,815,214)**

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of February 28, 2023
	2020	2021	2022	
	(RMB in thousands)			*(unaudited)*
Current assets				
Inventories	1,736,924	3,649,323	5,138,510	5,048,664
Trade and bills receivables	74,159	64,734	179,782	200,697
Prepayments, deposits and other receivables	28,849	55,567	130,354	224,932
Income tax recoverable	–	–	113,806	120,563
Amounts due from related parties	1,664,999	–	–	–
Cash at bank and on hand	311,348	1,544,715	1,683,448	1,031,362
Total current assets	**3,816,279**	**5,314,339**	**7,245,900**	**6,626,218**

	As of December 31,			As of February 28,
	2020	2021	2022	2023
	(RMB in thousands)			
				(unaudited)
Current liabilities				
Trade payables	144,661	550,649	1,045,530	538,055
Other payables and accruals	1,971,055	3,533,762	3,400,271	3,020,633
Amounts due to related parties	–	198,135	–	–
Bank and other borrowings	895,500	710,000	36,600	36,600
Lease liabilities	14,897	25,340	28,024	28,097
Current taxation	404,199	442,222	61,560	61,636
Total current liabilities	**3,430,312**	**5,460,108**	**4,571,985**	**3,685,021**
Net current assets/(liabilities)	**385,967**	**(145,769)**	**2,673,915**	**2,941,197**

Our net current assets increased from RMB2,673.9 million as of December 31, 2022 to RMB2,941.2 million as of February 28, 2023, mainly attributable to the decreases in trade payables of RMB507.5 million and other payables and accruals of RMB379.6 million, which was partially offset by the decrease in cash at bank and on hand of RMB652.1 million.

We recorded net current assets of RMB2,673.9 million as of December 31, 2022, as compared to net current liabilities of RMB145.8 million as of December 31, 2021. The change from net current liabilities position to net current assets position was attributable primarily to the increases in inventories of RMB1,489.2 million and income tax recoverable of RMB113.8 million, and the decreases in bank and other borrowings of RMB673.4 million and amounts due to related parties of RMB198.1 million.

We recorded net current liabilities of RMB145.8 million as of December 31, 2021, as compared to net current assets of RMB386.0 million as of December 31, 2020. The change from net current assets position to net current liabilities position was primarily due to the decrease in amounts due from related parties, which was offset by the distributions/dividends we declared in 2021 in an aggregate amount of RMB1,886.1 million.

Our Directors are of the view that we did not have any material default in payment of trade and non-trade payables and borrowings, and/or breach of covenants during the Trading Record Period and up to the date of this prospectus.

Inventories

Our inventories consist of (i) raw materials, mainly including grains used to produce our baijiu, and packaging materials, (ii) work-in-progress, mainly including our base liquor in stock for production of our baijiu products, and (iii) finished baijiu products that we or our distributors hold for sales. As of December 31, 2020, 2021 and 2022, we had unsold inventories held by our distributors for sales of RMB69.0 million, RMB183.4 million and RMB199.0 million, respectively. Such unsold inventories, being unsold finished baijiu products held by our distributors, constitute a part of our inventories and are accounted based on the corresponding costs.

The following table sets forth a summary of our inventory balances as of the dates indicated.

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Raw materials and packaging materials	97,209	262,236	291,803
Work-in-progress	1,342,376	2,592,796	3,793,366
Finished goods	297,339	794,291	1,053,341
Total	**1,736,924**	**3,649,323**	**5,138,510**

During the Track Record Period, work-in-progress, which consisted primarily of our base liquor in stock for production of baijiu products, was the largest component of our inventories. As of December 31, 2020, 2021 and 2022, the balance of our work-in-progress was RMB1,342.4 million, RMB2,592.8 million and RMB3,793.4 million, respectively, representing 77.3%, 71.0% and 73.8% of our total inventory balances as of the same dates. Our inventories increased from RMB1,736.9 million as of December 31, 2020 to RMB3,649.3 million as of December 31, 2021, and further increased by 40.8%, or RMB1,489.2 million, to RMB5,138.5 million as of December 31, 2022 as we have continued to expand our baijiu production catering to the growing market demand for our products. In particular, the balance of our work-in-progress increased by RMB1,200.6 million from December 31, 2021 to December 31, 2022, which constituted the majority of the increase in our total inventory balance. The increase in our inventories over time during the Track Record Period was also generally in line with our business growth.

We believe maintaining appropriate levels of inventories dynamically can help us fully address our consumers' demand and achieve consumer satisfaction without adversely affecting our liquidity. We have in place a set of policies and procedures to manage our inventories. For details, see "Business — Inventory Management."

The following table sets forth inventories turnover days for the periods indicated.

	For the year ended December 31,		
	2020	2021	2022
Inventories turnover days[(1)]	517.0	414.4	612.8

Note:

(1) Inventories turnover days are based on the average balance of inventories divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the years ended December 31 is 365 days.

Our inventories turnover days decreased from 517.0 days in 2020 to 414.4 days in 2021, primarily attributable to our growing product sales during this period. Inventories turnover days reached 612.8 days in 2022, which was primarily due to the significant increase of our inventories of work-in-progress in line with our production capacity expansion. As our baijiu brands continued to scale and premiumize, we have rapidly expanded our own base liquor production capacity to secure the supply of quality base liquor, optimize production cost structure and improve profitability and meet the growing customer demands for our baijiu products in the long term. The aging process is an essential part for baijiu-making process. Upon the completion of fermentation and distillation process, the base liquor will be stored in jars and left to age. The aging process will gradually affect the sensory properties and the composition of flavor compounds of the base liquor. Specifically, the blending of high quality sauce aroma baijiu requires base liquor with longer aging time. See "Business — Production Process — Aging." As a result of the requisite aging procedures in baijiu-making process, our inventory turnover days were relatively long during the Track Record Period, being 517.0 days in 2020, 414.4 days in 2021 and 612.8 days in 2022. Additionally, to cater to the growing market demand for premium baijiu products, we have strategically decided to store and age certain amount of our base liquor for over three years to develop and expand our vintage baijiu product portfolio with high quality. This may lead to prolonged inventory turnover days. Baijiu products generally do not have an expiry date. Pursuant to General Principles for the Labeling of Prepackaged Goods (《預包裝食品標籤通則》(GB7718-2011)), alcohol beverages with higher than 10% alcohol by volume (ABV) are exempted from labeling the shelf life. Base liquor with longer aging time is generally considered to have a better quality and thus has a higher price. Baijiu produced using base liquor with longer aging time is generally considered more valuable with better quality and flavor. According to Frost & Sullivan, the inventory turnover days of baijiu companies in China usually range from 400 days to 1,800 days and our inventories turnover days are generally in line with the industry norm.

As of March 31, 2023, RMB1,529.7 million, or 29.8% of our inventories outstanding as of December 31, 2022 had been sold or utilized. As of March 31, 2023, RMB71.9 million, or 24.6% of our raw materials and packaging materials as of December 31, 2022 had been utilized; and RMB1,018.4 million, or 26.8% of our work-in-progress as of December 31, 2022 had been utilized. As of March 31, 2023, 90.1% and 93.4% of our finished goods as of December 31, 2020 and 2021 had been sold or utilized, respectively. As of March 31, 2023, RMB439.4 million, or 41.7% of our finished goods as of December 31, 2022, had been sold or utilized, among which RMB185.0 million, or 93.0% of our outstanding inventories held by our distributors as of December 31, 2022 had been sold or utilized as of March 31, 2023.

Throughout the Track Record Period, we did not experience material recoverability issues with respect to our inventories. A vast majority of our inventories consist of base liquor, finished baijiu products and packaging materials which generally do not have an expiry date and which we believe have a high level of marketability given the growing consumer demand for our baijiu products. We also have in place dedicated personnel who continuously monitor aging conditions and marketability of our inventories with a view to identifying obsolete and slow-moving inventories so that we can promptly take appropriate remedial measures accordingly. Our management also reviews the recoverability of our inventories as of the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In light of these, we do not expect to experience any material issue in recoverability of inventories in the foreseeable future. As a result, no provision had been made with respect to our inventories as of the Latest Practicable Date.

Trade and Bills Receivables

Trade and bills receivables represent outstanding amounts due from a small number of customers, including large online distribution partners such as Tmall and JD.com, to which we granted credit terms, and bills receivables represent bank acceptance notes received from such customers. Our trade and bills receivables are generally due for settlement within 30 days from the date of billing and therefore are all classified as current assets.

Our trade and bills receivables decreased from RMB74.2 million as of December 31, 2020 to RMB64.7 million as of December 31, 2021, primarily due to our continued receivables collection efforts. Our trade and bills receivables increased from RMB64.7 million as of December 31, 2021 to RMB179.8 million as of December 31, 2022, primarily due to our customers' prolonged payment process amid the COVID-19 pandemic.

Below sets forth an aging analysis of trade receivables based on the invoice date and net of loss allowance.

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Less than 3 months	37,898	45,785	97,530
More than 3 months but less than 6 months	11,163	4,228	10,219
More than 6 months but less than 12 months	3,719	4,157	10,837
More than 12 months	765	2,131	–
	53,545	**56,301**	**118,586**

The following table sets forth the turnover days of our trade and bills receivables for the periods indicated.

	For the year ended December 31,		
	2020	**2021**	**2022**
Trade and bills receivables turnover days(1)	9.7	5.0	7.6

Note:

(1) Trade and bills receivables turnover days are based on the average balance of trade and bills receivables divided by total revenue for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The numbers of days for the years ended December 31 are 365 days.

Our trade and bills receivables turnover days decreased from 9.7 days in 2020 to 5.0 days in 2021, primarily due to our significant revenue growth in the relevant periods and the decrease of trade and bills receivables as percentages of our total revenue. Our trade and bills receivables turnover days increased from 5.0 in 2021 to 7.6 days in 2022, in line with our increased trade and bills receivables.

As of February 28, 2023, RMB69.6 million, or 54.6% of our trade receivables outstanding as of December 31, 2022 had been subsequently collected. On the basis that (i) a vast majority of our trade receivables had been outstanding for less than three months as of December 31, 2020, 2021 and 2022, (ii) our trade and bill receivables turnover days were below 10 days throughout the Track Record Period, and (iii) as of February 28, 2023, more than 50% of our trade receivables outstanding as of December 31, 2022 had been collected, we do not foresee any material recoverability issues with respect to our trade receivables that remained outstanding as of December 31, 2022.

Throughout the Track Record Period, we had not experienced material recoverability issues with respect to our trade and bills receivables. Our trade and bills receivables have been primarily due to large customers who have maintained robust credit profiles and have established long-term business relationships with us. We offer more flexible payment terms to customers that we believe are creditworthy based upon their proven business records. Before extending payment terms to any customer, we perform extensive analysis into their creditworthiness, business conditions and financial profiles to ensure that they have the ability to pay as per agreed-upon schedules. In addition, we have dedicated internal teams responsible for continually monitoring the credit profiles and operating and financial conditions of our customers and proactively following up with our customers to ensure recoverability. In light of these, we do not expect to experience any material issue in recoverability of trade and bills receivables in the foreseeable future. Nevertheless, we recorded loss allowance for our trade and bill receivables of RMB4.3 million, RMB5.2 million and RMB9.0 million in 2020, 2021 and 2022, respectively, which we believe are sufficient in view of the subsequent settlement of our trade and bills receivables. Expected loss rates are based on actual loss experience over the recent past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and our Group's view of economic conditions over the expected lives of the receivables.

Prepayments, Deposits and Other Receivables

Our other receivables consist of (i) advances to staff, primarily representing petty cash advanced to our various internal corporate functions, (ii) deposits paid to suppliers, primarily relating to procurement of raw materials from suppliers, (iii) deposits paid to lessors relating to our leased warehouses, and (iv) others.

Our prepayments consist of (i) prepayments for purchase of raw materials, (ii) prepayments for operating expenses incurred in connection with our marketing and promotion activities, (iii) prepayments for costs incurred in connection with the Listing, (iv) value-added tax recoverable, and (v) other prepayments. Our prepayments, deposits and other receivables are generally expected to be recovered or recognized as expenses within one year and therefore are all classified as current assets.

The following table sets forth our prepayments, deposits and other receivables as of the dates indicated.

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Advances to staff	2,245	3,577	5,230
Deposits paid to suppliers	2,899	4,059	6,604
Deposits paid to lessors	1,439	3,376	4,506
Others	3,218	489	604
Financial assets measured at amortized cost	9,801	11,501	16,944
Prepayments for purchase of raw materials	2,680	6,081	15,366
Prepayments for operating expenses	15,903	29,169	39,958
Prepayments for costs incurred in connection with the Listing	–	3,002	9,472
Value-added tax recoverable	–	–	39,417
Others	465	5,814	9,197
Subtotal	19,048	44,066	113,410
Total	**28,849**	**55,567**	**130,354**

Our prepayments, deposits and other receivables increased from RMB28.8 million as of December 31, 2020 to RMB55.6 million as of December 31, 2021, mainly due to the increase in prepayments for operating expenses of RMB13.3 million as we continued to strengthen our marketing efforts to promote our baijiu brands.

Our prepayments, deposits and other receivables increased from RMB55.6 million as of December 31, 2021 to RMB130.4 million as of December 31, 2022, mainly due to the increase in value-added tax recoverable of RMB39.4 million primarily associated with the construction of our production facilities and baijiu production during the period. In December 2022, certain of our PRC subsidiaries increased our inventory level as our production capacity continued to grow to meet the rising customer demands for our baijiu products. This has resulted in our input value-added tax temporarily exceeding our output value-added tax for the same year, leading to the recognition of value-added tax recoverable. The value-added tax recoverable was also attributable to the bills from service providers in connection with the construction of our production facilities. Additionally, our prepayments for purchase of raw materials increased from RMB6.1 million as of December 31, 2021 to RMB15.4 million as of December 31, 2022 primarily because we made a bulk prepayment of utility fees in order to enjoy price discounts.

Amounts Due From Related Parties

Amounts due from related parties represent cash advances to Huaze Group, which are non-trade in nature. During the Track Record Period, we recorded such amounts due from related parties of RMB1,665.0 million, nil and nil as of December 31, 2020, 2021 and 2022, respectively. The advances were fully settled in the fourth quarter of 2021.

Cash at Bank and On Hand

During the Track Record Period, we had cash at bank and on hand of RMB311.3 million, RMB1,544.7 million and RMB1,683.4 million as of December 31, 2020, 2021 and 2022, respectively. For a detailed analysis of our cash flow during the Track Record Period, see " — Liquidity and Capital Resources — Cash Flow Analysis."

Property, Plant and Equipment

Our property, plant and equipment consists of plant and buildings, construction in progress, right-of-use assets, machine and equipment, and office equipment and others. The following table sets forth a breakdown of our property, plant and equipment as of the dates indicated.

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Plant and buildings	376,641	712,092	1,670,819
Construction in progress	142,073	424,301	377,405
Right-of-use assets	227,019	1,013,048	1,346,253
Machine and equipment	63,295	148,605	334,778
Office equipment and others	19,635	30,758	46,031
Total	**828,663**	**2,328,804**	**3,775,286**

The carrying amount of our property, plant and equipment amounted to RMB828.7 million, RMB2,328.8 million and RMB3,775.3 million as of December 31, 2020, 2021 and 2022, respectively. The increase in the carrying amount of our property, plant and equipment over time was primarily due to the expansion of our production facilities to support our business growth. In particular, plant and buildings increased from RMB376.6 million as of December 31, 2020 to RMB712.1 million as of December 31, 2021, and further to RMB1,670.8 million as of December 31, 2022, primarily due to completion of the construction of our production facilities, which were subsequently registered as our plant and buildings. For the same reason, our construction in progress decreased from RMB424.3 million as of December 31, 2021 to RMB377.4 million as of December 31, 2022. In addition, our right-of-use assets increased from RMB227.0 million as of December 31, 2020 to RMB1,013.0 million as of December 31, 2021, and further to RMB1,346.3 million as of December 31, 2022, primarily because we acquired the land use rights to multiple parcels of land from local governmental authorities for expansion of our production capacity during the period.

Trade Payables

Our trade payables represent unpaid liabilities for products and services provided to us by our suppliers, which were primarily raw materials and base liquor used for baijiu production.

Our trade payables increased from RMB144.7 million as of December 31, 2020 to RMB550.6 million as of December 31, 2021, and further to RMB1,045.5 million as of December 31, 2022 attributable primarily to our increased inventory level to support our production expansion, catering to growing market demand for our baijiu products. The aggregate procurement amount increased from RMB1,166.2 million in 2020 to RMB4,025.2 million in 2021, and further to RMB4,243.5 million in 2022. In addition, the increase in our trade payables from December 31, 2021 to December 31, 2022 was also due to the varied procurement cycle. Specifically, we made a bulk purchase at the end of 2022, the payment of which did not become due until 2023. This resulted in a large amount of trade payables remaining outstanding as of December 31, 2022.

The following table sets forth the aging analysis of our trade payables as of the dates indicated.

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Within 1 year	139,911	545,373	1,039,299
1 to 2 years	2,662	3,368	6,142
2 to 3 years	2,088	1,908	89
	144,661	**550,649**	**1,045,530**

The following table sets forth our trade payables turnover days for the periods indicated.

	For the year ended December 31,		
	2020	**2021**	**2022**
Trade payables turnover days[(1)]	40.6	53.5	111.3

Note:

(1) Trade payables turnover days are based on the average balance of trade payables divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the years ended December 31 is 365 days.

Our trade payables turnover days increased from 40.6 days in 2020 to 53.5 days in 2021 and further to 111.3 days in 2022, which was generally in line with the movement of the outstanding amount of our trade payables as of the end of each year during the Track Record Period.

As of February 28, 2023, RMB730.7 million, or 69.9% of our trade payables outstanding as of December 31, 2022 had been subsequently settled.

Other Payables and Accruals

Our other payables and accruals consist primarily of (i) other taxes payables, primarily payables for compensation tax and income tax, (ii) payables for staff related costs representing salary and benefits payable to our employees and social insurance and housing provident fund contributions to be made for our employees, (iii) accruals for sales rebates to distributors that we grant to them under our distribution arrangements to motivate their sales performance, (iv) payables for construction and purchase of property, plant and equipment, (v) payables for costs relating to the Listing, (vi) distributions/dividends payable, representing the distributions and dividends that were declared by us but remained unpaid, (vii) accruals for advertisement expenses, (viii) receipts in advance from customers, mainly representing prepayments and performance deposits we received from distributors pursuant to our distribution arrangements, and (ix) others.

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

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Other taxes payables	559,697	312,696	119,131
Payables for staff related costs	53,007	137,771	172,307
Accruals for sales rebates	367,704	870,434	713,472
Payables for construction and purchases of property, plant and equipment	32,693	180,720	348,833
Payables for costs relating to the Listing	–	3,774	15,368
Distributions/dividends payable	–	135,736	144,766
Accruals for advertisement expenses	7,740	43,815	62,594
Others	26,673	31,419	32,529
Financial liabilities measured at amortized cost	1,047,514	1,716,365	1,609,000
Receipts in advance from customers	923,541	1,817,397	1,791,271
	1,971,055	**3,533,762**	**3,400,271**

Our other payables and accruals increased from RMB1,971.1 million as of December 31, 2020 to RMB3,533.8 million as of December 31, 2021, primarily due to the increases in receipts in advance from customers and volume rebates accruals to distributors, as a result of our nationwide distribution network expansion to drive product sales. Our other payables and accruals decreased from RMB3,533.8 million as of December 31, 2021 to RMB3,400.3 million as of December 31, 2022, primarily due to the decrease in tax payables and accruals.

As of December 31, 2020, 2021 and 2022, we recorded dividends payable of nil, RMB135.7 million and RMB144.8 million. We expect to settle the dividends payables in full with our operating cash in January 2024.

Accruals for sales rebates represent volume rebates expected to be provided to our distributors at each reporting date. Our accruals for sales rebates increased from RMB367.7 million as of December 31, 2020 to RMB870.4 million as of December 31, 2021, which was generally in line with our rapid business and revenue growth over the period. Our accruals for sales rebates decreased from RMB870.4 million as of December 31, 2021 to RMB713.5 million as of December 31, 2022, primarily due to our accelerated rebate settlement cycle in 2022.

Receipts in advance from customers represent primarily deposits we receive upfront from our distribution partners and featured stores for the purchase of our baijiu products. Our receipts in advance from customers increased from RMB923.5 million as of December 31, 2020 to RMB1,817.4 million as of December 31, 2021, which was generally in line with our rapid business and revenue growth. Our receipts in advance from customers remained relatively stable at RMB1,817.4 million and RMB1,791.3 million as of December 31, 2021 and 2022, respectively. As of February 28, 2023, RMB1,194.8 million, or 66.7% of our receipts in advance from customers outstanding as of December 31, 2022 had been subsequently settled.

Bank and Other Borrowings

Our bank and other borrowings amounted to RMB952.1 million, RMB896.6 million and RMB36.6 million as of December 31, 2020, 2021 and 2022, respectively. During the Track Record Period, these bank and other borrowings were mainly used to support our production capacity expansion.

Financial Instruments Issued to An Investor

Our financial instruments issued to an investor primarily represent the Series A Preferred Shares and warrants issued to Zest Holdings in connection with the Pre-IPO Investments. Investment from Zest Holdings was recorded as financial instruments as it was granted the right to require our Company to redeem all or a portion of the Series A Preferred Shares it held if the Listing is not consummated within a certain period. As of December 31, 2020, 2021 and 2022, we recorded financial instruments issued to an investor of nil, RMB8,756.9 million and RMB10,253.8 million, respectively. Upon the Listing, all such financial instruments will be converted into ordinary shares, and accordingly, such liability will be derecognized and transferred to equity.

The change in the carrying amount of the Series A Preferred Shares from RMB1.9 billion upon its issuance in November 2021, to RMB8.3 billion as of December 31, 2021 and further to RMB10.3 billion as of December 31, 2022 was primarily due to the remeasurement to fair value through equity upon issuance. We recognize financial liabilities arising from the issuance of the Series A Preferred Shares at the highest possible obligations arising therefrom. As the present value of perpetual cash flow of the future distribution of distributable profits represents the fair value of the Company's equity, we measure the financial liabilities arising from our obligations in connection with the Pre-IPO Investments using 30% of fair value of the Company's equity. The differences between (i) the considerations received from the issuance of the Series A Preferred Shares and (ii) the fair value of the financial liabilities recognized at the date of issuance (being the abovementioned 30% of fair value of the Company's equity), were adjusted in equity as the remeasurement to fair value through equity upon issuance. See Note 23(a) of the Accountants' Report included in Appendix I to this prospectus.

The Series A Preferred Shares and warrants issued to Zest Holdings in connection with the Pre-IPO Investments are not traded in an active market and their fair value is determined by using valuation techniques. As their fair value is measured using significant unobservable inputs, such financial liabilities are categorized as level 3 instruments. In relation to the valuation of these level 3 instruments, our Directors have (i) reviewed the terms of agreements relating to such instruments, (ii) engaged an independent valuer to perform valuations for such instruments, (iii) provided necessary financial and non-financial information to the valuer and discussed with the valuer on relevant assumptions, (iv) carefully considered all information inputs, especially non-market-related information, such as risk free rate and expected volatility, which required management assessment and estimates, and (v) reviewed the valuation reports prepared by the valuer.

Details of the fair value measurement of the financial instruments issued to an investor, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 25(d) of the Accountants' Report included in Appendix I to this prospectus, which was issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountants' opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out in Appendix I to this prospectus.

In relation to the fair value assessment of the financial instruments categorized within level 3 of fair value measurement, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) reviewing relevant notes in the Accountants' Report contained in Appendix I to this prospectus; (ii) discussing with the Company's management to understand, among others, independence of the valuer, as well as the key basis, assumptions and methodologies adopted in the valuation; (iii) obtaining and reviewing the valuation reports prepared by the valuer; (iv) obtaining and reviewing the credentials of the valuer; and (v) discussing with the valuer to understand, among others, the independence of the valuer, as well as the key basis, assumptions and methodologies adopted in the valuation. Having considered the work done by the Company's management and the Directors and the relevant due diligence work conducted as stated above, nothing has come to the Joint Sponsors' attention that would reasonably cause the Joint Sponsors to question the valuation analysis and results.

For details, see " — Indebtedness — Financial Instruments Issued to An Investor," "History, Development and Corporate Structure — Pre-IPO Investments" and Note 23 to the Accountants' Report in Appendix I to this prospectus.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements mainly from cash generated from our business operations, bank loans and shareholder contributions. After the Global Offering, we intend to finance our future capital requirements through cash generated from our business operations, the net proceeds from the Global Offering, and other future equity or debt financings. We currently do not anticipate any changes to the availability of financing to fund our operations in the near future. We had cash at bank and on hand of RMB311.3 million, RMB1,544.7 million and RMB1,683.4 million as of December 31, 2020, 2021 and 2022, respectively.

Cash Flow Analysis

The following table sets forth our cash flows for the periods indicated.

	For the year ended December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Operating cash flows before movements in working capital	791,256	1,538,133	1,722,403
Changes in working capital	747,356	(241,750)	(1,496,947)
Income tax paid	(14,634)	(327,360)	(936,072)
Net cash generated from/(used in) operating activities	1,523,978	969,023	(710,616)
Net cash used in investing activities	(255,694)	(1,384,973)	(1,388,711)
Net cash (used in)/generated from financing activities	(1,068,294)	1,670,434	2,219,758
Net increase in cash and cash equivalents	**199,990**	**1,254,484**	**120,431**
Cash and cash equivalents at the beginning of the year	111,300	311,290	1,544,676
Effect of foreign exchange rate changes	–	(21,098)	18,275
Cash and cash equivalents at the end of the year	**311,290**	**1,544,676**	**1,683,382**

Net Cash (Used in) / Generated from Operating Activities

Net cash used in operating activities for the year ended December 31, 2022 was RMB710.6 million, which consisted primarily of profit before taxation of RMB1,435.1 million, adjusted for certain non-cash and non-operating items. Adjustments for such non-cash and non-operating items primarily include (i) changes in fair value in financial instruments issued to an investor of RMB130.7 million, which was attributable primarily to changes in the valuation of our Company driven by our strong business growth and improved business outlook, and (ii) adjustments for depreciation expenses of RMB157.1 million. The amount was further adjusted by changes in working capital, primarily including (i) the increase in inventories of RMB1,489.2 million, as we continued to expand our baijiu production, (ii) the decrease in other payables and accruals of RMB319.2 million, and (iii) the increase in trade and bills receivables of RMB115.0 million.

To improve our net operating cash outflow position as of December 31, 2022, we plan to (i) follow up with our customers, especially the key accounts and frequent customers, on a timely basis to secure new orders and increase our operating cash inflows, (ii) continue to implement our brand premiumization initiatives to increase revenue through improved profit margin profiles, (iii) develop and further penetrate into new consumption scenarios, such as wedding banquets, to further increase our product sales, (iv) negotiate better payment and credit terms with our suppliers as we continue to scale our business and increase our procurement from such suppliers, (v) improve the planning and precision of our procurement management through enhancing the accuracy of our sales forecasting to control our procurement payment, (vi) improve credit management by collecting outstanding receivables in a timely manner, and (vii) dedicate a team to monitoring our operating cash flow on a periodic basis.

Net cash generated from operating activities for the year ended December 31, 2021 was RMB969.0 million, which consisted primarily of profit before taxation of RMB1,408.5 million, adjusted for certain non-cash and non-operating items. Adjustments for such non-cash and non-operating items primarily include (i) depreciation expenses of RMB77.3 million and (ii) finance costs of RMB36.4 million. The amount was further adjusted by changes in working capital, primarily including (i) the increase in inventories of RMB1,912.4 million, as we continued to expand our baijiu production, (ii) the increase in other payables and accruals of RMB1,278.9 million, primarily due to the increases in receipts in advance from customers and volume rebates accruals to distributors, and (iii) the increase in trade payables of RMB406.0 million, as a result of our increased inventory level to support our production capacity expansion.

Net cash generated from operating activities for the year ended December 31, 2020 was RMB1,524.0 million, which consisted primarily of profit before taxation of RMB701.6 million, adjusted for certain non-cash and non-operating items. Adjustments for such non-cash and non-operating items primarily include (i) depreciation expenses of RMB51.1 million and (ii) finance costs of RMB39.7 million. The amount was further adjusted by changes in working capital, primarily including (i) the increase in inventories of RMB228.1 million, as we continued to expand our baijiu production, (ii) the increase in other payables and accruals of RMB967.9 million, primarily due to the increases in receipts in advance from customers and volume rebates accruals to distributors, and (iii) the increase in trade payables of RMB34.3 million, as a result of our increased inventory level to support our production capacity expansion.

Net Cash Used in Investing Activities

Net cash used in investing activities for the year ended December 31, 2022 was RMB1,388.7 million, which consisted primarily of (i) payments for purchase of property, plant and equipment of RMB1,066.9 million, and (ii) payments for land use rights of RMB355.3 million.

Net cash used in investing activities for the year ended December 31, 2021 was RMB1,385.0 million, which consisted primarily of (i) payments for purchase of property, plant and equipment of RMB635.8 million, and (ii) payments for land use rights of RMB768.0 million.

Net cash used in investing activities for the year ended December 31, 2020 was RMB255.7 million, which consisted primarily of (i) payments for purchase of property, plant and equipment of RMB201.9 million, and (ii) payments for land use rights of RMB57.2 million.

Net Cash (Used in) / Generated from Financing Activities

Net cash generated financing activities for the year ended December 31, 2022 was RMB2,219.8 million, which consisted primarily of (i) proceeds from issuance of convertible redeemable preferred shares to an investor of RMB3,334.6 million and (ii) proceeds from bank and other borrowings of RMB490.0 million, partially offset by repayment of bank and other borrowings of RMB1,350.0 million.

Net cash generated financing activities for the year ended December 31, 2021 was RMB1,670.4 million, which consisted primarily of (i) proceeds from issuance of preferred shares of RMB1,919.4 million and (ii) proceeds from bank and other borrowings of RMB840.0 million, partially offset by repayment of bank and other borrowings of RMB895.5 million.

Net cash used in financing activities for the year ended December 31, 2020 was RMB1,068.3 million, which consisted primarily of (i) repayment of bank and other borrowings of RMB886.0 million, partially offset by proceeds from bank and other borrowings of RMB885.5 million and (ii) net increase in amounts due from related parties of RMB1,031.0 million.

INDEBTEDNESS

Set out below is a summary of our indebtedness as of the dates indicated:

	As of December 31,			As of February 28, 2023
	2020	**2021**	**2022**	
		(RMB in millions)		*(unaudited)*
Bank and other borrowings	952.1	896.6	36.6	36.6
Lease liabilities	44.5	69.1	65.2	63.5
Financial instruments issued to an investor	–	8,756.9	10,253.8	10,238.4
Contingent liabilities	N/A	N/A	N/A	N/A
Total amount of indebtedness	**996.6**	**9,722.6**	**10,355.6**	**10,338.5**

Bank and Other Borrowings

Our bank and other borrowings amounted to RMB952.1 million, RMB896.6 million, RMB36.6 million and RMB36.6 million as of December 31, 2020, 2021, 2022 and February 28, 2023, respectively. For interest rate profile of our borrowings during the Track Record Period, see Note 25(c) to the Accountants' Report in Appendix I to this prospectus. As of February 28, 2023, we did not have any unutilized borrowing facilities.

Lease Liabilities

Our lease liabilities represent the payment obligations on our leases in relation to our leased properties that are used mainly as our offices and warehouses. The carrying amount of our lease liabilities amounted to RMB44.5 million, RMB69.1 million, RMB65.2 million and RMB63.5 million as of December 31, 2020, 2021, 2022 and February 28, 2023, respectively.

Financial Instruments Issued to An Investor

We have historically issued Series A Preferred Shares and certain warrants to Zest Holdings in connection with our series A round financing. For identity and background of Zest Holdings, see "History, Development and Corporate Structure — Pre-IPO Investments." In June 2022, all rights under the warrants were terminated, and upon the completion of the Listing, such Series A Preferred Shares will be automatically converted into ordinary shares. However, Zest Holdings was granted the right to require us to redeem the Series A Preferred Shares it held if the Listing is not consummated on or prior to a certain date or upon the occurrence of certain events.

If we were required to redeem all the Series A Preferred Shares, the aggregate redemption price shall be the sum of the aggregate consideration for the issuance of such Series A Preferred Shares, plus applicable interest accrued thereon. For more information about the terms of such Series A Preferred Shares, including their conversion and redemption features, see Note 23 to the Accountants' Report set out in Appendix I to this prospectus. Pursuant to the agreements between holders of our Series A Preferred Shares and us entered into in May 2022, the aggregate consideration at which our Series A Preferred Shares issued equals to US$500.0 million. As of the Latest Practicable Date, we had a total 9,015,430 of outstanding Series A Preferred Shares. The redemption of the Series A Preferred Shares, if triggered, could have a negative impact on our cash and liquidity positions and financial condition.

Contingent Liabilities

During the Track Record Period and up to February 28, 2023, we did not have any material contingent liabilities.

Except as disclosed above, as of February 28, 2023, being the latest practicable date for determining our indebtedness, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities. Our Directors have confirmed that there is no material change in our indebtedness since February 28, 2023 and up to the Latest Practicable Date.

CAPITAL EXPENDITURES

Our historical capital expenditures primarily included purchases of fixed assets and land use rights. The following table sets forth our capital expenditures for the periods indicated.

	For the year ended December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Purchase of fixed assets	201,863	635,832	1,066,918
Purchase of land use rights	57,172	768,047	355,319
Total	**259,035**	**1,403,879**	**1,422,237**

We will continue to make capital expenditures to meet the expected growth of our business and our expansion plan. See "Future Plans and Use of Proceeds — Use of Proceeds." Also see "Business —

Production Facilities — Planned Production Capacity Expansion." 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.

CONTRACTUAL OBLIGATIONS

Capital Commitments

We mainly have capital commitments with respect to our production facilities under construction. Capital commitments outstanding as of December 31, 2020, 2021 and 2022 but not provided for in our historical financial information were as follows:

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Contracted for	1,020,965	550,880	867,473
Authorized but not contracted for	109,856	118,983	96,432
	1,130,821	**669,863**	**963,905**

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the periods indicated.

	For the year ended December 31,		
	2020	2021	2022
Gross profit margin	52.2%	53.5%	55.3%
Net profit margin	21.7%	20.2%	17.6%
Adjusted net profit margin (non-IFRS measure)	21.7%	21.0%	20.4%
Return on assets[(1)]	13.6%	16.8%	11.0%

Notes:

(1) Equals profit attributable to equity shareholders of the Company for the year divided by the average of the beginning and ending total assets for that year and multiplied by 100%.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. For details of our related party transactions, see Note 27 to the Accountant's Report included in Appendix I to this prospectus. We set forth additional information of certain related party transactions as below.

During the Track Record Period, Huaze Liquor Sales Co., Ltd. (華澤酒業銷售有限公司, "**Huaze Liquor**") purchased customized baijiu products under our *Zhen Jiu* and *Kai Kou Xiao* brands from us and distributed these baijiu products to retailers, such as tobacco and liquor stores, and group-purchase customers. In 2020, 2021 and 2022, Huaze Liquor purchased a total of nil, 639 tons and 76 tons baijiu products from us, respectively. In 2020, we started to collaborate with Huaze Liquor, seeking to boost our sales of customized baijiu products leveraging Huaze Liquor's sales capability and resources. After a year's preparation in product design and marketing, in 2021, we launched our customized baijiu products designed and produced based on Huaze Liquor's requirements and achieved a relatively high amount of sales through transactions with Huaze Liquor, making Huaze Liquor our largest customer in 2021. Before December 2021, Huaze Liquor was owned by Jindong Group, a company controlled by Mr. Wu, as to 51% and by an Independent Third Party as to 49%. Our Group's transactions with Huaze Liquor are conducted in the ordinary course of business at arm's length and the terms of our transactions with Huaze Liquor are in line with our normal commercial terms for similar transactions with other customers. In December 2021, to reduce the potential perceived risks associated with related party transactions as part of our compliance efforts, and to a lesser extent, considering our reduced efforts in customized baijiu products' business, Jindong Group disposed its entire equity interest in Huaze Liquor to Loudi Fuzhi Trading Co., Ltd. (婁底市福致商貿有限公司), an Independent Third Party which is primarily engaged in the distribution of baijiu products, at a consideration of RMB9,180,000. After completion of the disposal, Huaze Liquor continued to operate its business using the same name. The consideration paid for this disposal was determined after arm's length negotiation between Jindong Group and Loudi Fuzhi Trading Co., Ltd. with reference to, among others, the net assets of Huaze Liquor, and was considered as fair and reasonable. After completion of the disposal, we continued our sale of customized baijiu products to Huaze Liquor and there has not been any significant change in pricing and other terms for such transactions. To the best knowledge of our Directors, after such disposal, Huaze Liquor does not have any business transactions with other businesses controlled by Mr. Wu.

During the Track Record Period, the Group purchased packaging materials for our baijiu products from, among others, Xiangtan Huapeng Packaging Co., Ltd. (湘潭華鵬包裝有限公司, "**Xiangtan Huapeng**") and Guizhou Huashi Packaging Technology Co., Ltd. (貴州華世包裝科技有限公司, "**Guizhou Huashi**"). For details, please refer to Note 27(b) to the Accountants' Report included in Appendix I. Before September 2022, Xiangtan Huapeng was wholly-owned by Yunnan Huapeng Investment Co., Ltd. (雲南華鵬投資有限公司, "**Yunnan Huapeng**"), a company primarily focusing on investment businesses which was held by Huaze Group as to approximately 97% and Mr. Wu as to 3%. Guizhou Huashi was held by Xiangtan Huapeng, Mr. Chen Yanglai (陳揚來) and Mr. Qiu Shuiquan (邱水全) as to 30%, 40% and 30%, respectively. Both of Mr. Chen Yanglai and Mr. Qiu Shuiquan are Independent Third Parties of the Company. In September 2022, as Mr. Wu determined to focus more on liquor business instead of liquor-related supply chain business, Yunnan Huapeng disposed its entire equity interests of Xiangtan Huapeng to Huanan Huashi Packaging Co., Ltd. (湖南華世包裝有限公司, "**Hunan Huashi**"), which was controlled by Mr. Chen Yanglai, the consideration of which amounting to RMB12 million was determined after arm's length negotiation between Yunan Huapeng and Hunan Huashi with reference to, among others, the net assets of Xiangtan Huapeng and was considered as fair and reasonable (the "**Disposal**"). The other investors of Hunan Huashi include Ms. Wu Jianmi (吳建密), Mr. Zhou Wei (周偉), Mr. Yi Yusheng (易裕生), Mr. Chen Liebin (陳烈兵) and Ms. Wang Jianqun (汪建群). Ms. Wu Jianmi is the cousin of Mr. Wu and Ms. Wang Jianqun is the sister-in-law of Mr. Wu. All the other shareholders of Hunan Huashi are Independent Third Parties of the Company.

Before and after the Disposal, our Group has been purchasing packaging materials of baijiu products from Xiangtan Huapeng and Guizhou Huashi based on arm's length negotiation through public tender and bidding process with other third party suppliers. The terms offered by Xiangtan Huapeng and Guizhou Huashi to our Group are no less favorable than the terms available from Independent Third Parties. After the Disposal, there has been no significant changes in pricing and other terms between our Group on one hand and Xiangtan Huapeng and Guizhou Huashi on the other hand. In addition, Xiangtan Huapeng has been providing packaging materials to the other businesses controlled by Mr. Wu based on arm's length negotiation through public tender and bidding process with other third party suppliers. To the best knowledge of our Directors, (i) after the Disposal, there has been no significant changes in pricing and other terms between Xiangtan Huapeng and the other businesses controlled by Mr. Wu; and (ii) save as the purchase of packaging materials by our Group, there is no other business transaction between Xiangtan Huapeng and Guizhou Huashi on one hand and our Group or other businesses controlled by Mr. Wu on the other hand.

To the best knowledge of the Company, (i) none of the acquisitions of Huaze Liquor and Xiangtan Huapeng by any of the counterparties involved is directly or indirectly financed by Mr. Wu or any of his close associates, and (ii) none of the counterparties is accustomed to taking instructions from Mr. Wu or any of his close associates in relation to the acquisitions of Huaze Liquor and Xiangtan Huapeng.

Our Directors are of the view that each of the related party transactions set out in Note 27 to the Accountants' Report included in Appendix I to this prospectus was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

FINANCIAL RISKS DISCLOSURE

Our activities expose us to a variety of financial risks: credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Risk management is carried out under policies approved by our Board. The management identifies and evaluates financial risks in close co-operation with our operating units.

Credit Risk

We are exposed to credit risk primarily in relation to our trade receivables. Our exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks with good credit standing. We do not provide any guarantees which would expose us to credit risk. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets.

We only provide credit term to supermarkets, certain online retailers and limited number of distributors and group purchase customers. As of December 31, 2020, 2021 and 2022, 47%, 46% and 5% of the total trade receivables was due from the Group's largest debtor and 62%, 61% and 12% of the total trade receivables, respectively, were due from our five largest debtors. We have policies in place to ensure that trade receivables with credit terms are made to counterparties with an appropriate credit history and our management performs ongoing credit evaluations of the counterparties. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. We measure loss allowances for trade receivables at an amount equal to lifetime expected credit losses ("**ECLs**"), which is calculated by individual assessment and collective assessment using a provision matrix. The movements of expected credit losses are presented in Note 25(a) to the Accountants' Report included in Appendix I to this prospectus.

Liquidity Risk

We aim to maintain sufficient cash and cash equivalents. As of December 31, 2020, 2021 and 2022, we had net current assets of RMB386.0 million, net current liabilities of RMB145.8 million and net current assets of RMB2,673.9 million, respectively. In management of liquidity risk, we regularly monitor our liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient reserves of cash, readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term. Historically, we have relied principally on both operational sources of cash and non-operational sources of equity and debt financing to fund its operations and business development. For details of our remaining contractual maturities at the end of the reporting period of our non-derivative and derivative financial liabilities, see Note 25(b) to the Accountants' Report set forth in Appendix I to this prospectus.

We have carried out a review of our cash flow forecast for the twelve months period following the date of issuance of the accompanying combined financial statements. Based on such forecast, our management believes that adequate sources of liquidity exist to fund our working capital and future capital expenditures requirements, and other liabilities and commitments as they become due. In preparing the cash flow forecast, our management has considered historical cash requirements, working capital and capital expenditures plans, estimated cash flows provided by operations, existing cash on hand, as well as other key factors, including utilization of credit facilities granted by financial institutions. Our management believes the assumptions used in the cash forecast are reasonable.

Interest Rate Risk

Our interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose us to cash flow interest rate risk and fair value interest rate risk respectively. For the interest rate profile of our total borrowings at the end of the reporting period and the sensitivity analysis, see Note 25(c) to the Accountants' Report set forth in Appendix I to this prospectus.

DIVIDENDS

As advised by our Cayman Islands legal advisor, under Cayman Islands law, a position of accumulated losses does not necessarily restrict our Company from declaring and paying dividends to our Shareholders out of either our profit or our share premium account, provided this would not result in our Company being unable to pay its debts as they fall due in the ordinary course of business. As we are a holding company incorporated under the laws of the Cayman Islands, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. Any dividends we pay will be determined at the absolute discretion of our Board, taking into account factors including our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that our Board deems to be appropriate. Our Shareholders may approve, in a general meeting, any declaration of dividends, which must not exceed the amount recommended by our Board.

Our Group declared an aggregate of RMB1,886.1 million of distributions/dividends in 2021. The actual payment of these distributions/dividends will not be made until the completion of the Global Offering as our Group is contractually not allowed to pay any distributions/dividends to the Controlling Shareholders prior to an initial public offering pursuant to the agreement with one of our Pre-IPO Investors. After offsetting amounts due from related parties, we recorded dividends payable of RMB135.7 million and RMB144.8 million as of December 31, 2021 and December 31, 2022, respectively. We expect to settle the dividends payables in full with our operating cash in January 2024. For details of such amounts due from related parties, see " — Discussion of Certain Key Items from Our Consolidated Statements of Financial Position — Amounts Due from Related Parties." Nevertheless, our Directors are of the view that these dividends payables to our Controlling Shareholders do not have any impact on our financial independence from our Controlling Shareholders because the payables will not materially adversely affect our liquidity, working capital or financial condition after the Listing. As of December 31, 2020, 2021 and 2022, we had cash at bank and on hand of RMB311.3 million, RMB1,544.7 million and RMB1,683.4 million, respectively.

Other than the foregoing, no other dividend was declared or paid throughout the Track Record Period. Our Directors consider that dividends made during the Track Record Period are not indicative of our dividend payments in the future. See "Risk Factors — Risks Relating to the Global Offering and Our Shares — We cannot assure you whether and when we will declare and pay dividends in the future."

WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that, taking into account the financial resources available to the Group, including the estimated net proceeds from the Global Offering and the expected cash generated from operating activities, we have sufficient working capital for our present requirements and for the next 12 months from the date of this prospectus.

DISTRIBUTABLE RESERVES

As of December 31, 2022, the Company did not have any distributable reserves.

LISTING EXPENSES

Our listing expenses mainly include (i) underwriting-related expenses, such as underwriting fees and commissions, and (ii) non-underwriting-related expenses, comprising professional fees paid to our legal advisors and Reporting Accountants for their services rendered in relation to the Listing and the Global Offering, and other fees and expenses. Assuming full payment of the discretionary incentive fee, the estimated total listing expenses (based on the mid-point of the Offer Price Range and assuming that the Over-allotment Option is not exercised) for the Global Offering are approximately HK$311 million, accounting for approximately of 5.3% of our gross proceeds. Among such estimated total listing expenses, we expect to pay underwriting-related expenses of HK$213 million, professional fees for our legal advisors and Reporting Accountants of HK$70 million and other fees and expenses of HK$28 million. An estimated amount of HK$93 million for our listing expenses, accounting for approximately 1.6% of our gross proceeds, was or is expected to be expensed through the statement of profit or loss and the remaining amount of HK$218 million is expected to be recognized directly as a deduction from equity upon the Listing. We did not recognize any listing expenses in 2020. We recognized listing expenses of RMB17.0 million and RMB36.8 million in 2021 and 2022 in our consolidated statements of profit or loss and other comprehensive income, respectively.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this prospectus, there has been no material adverse change in our financial, operational or trading position, indebtedness, contingent liabilities or prospects since December 31, 2022, being the end date of our latest audited financial statements, and there has been no event since December 31, 2022 that would materially affect the information shown in the Accountants' Report set out in Appendix I.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except for the amounts due from related parties as disclosed in this section, as of the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible liabilities attributable to equity shareholders of the Company as of December 31, 2022 as if the Global Offering had taken place on December 31, 2022.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of December 31, 2022 or at any future date.

	Consolidated net tangible liabilities attributable to equity shareholders of the Company as of December 31, 2022	Estimated net proceeds from the Global Offering	Estimated impact upon reclassification of the preferred shares	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB*	*HKD*
	Note (1)	*Note (2)*	*Note (3)*		*Note (4)*	*Note (5)*
Based on an Offer Price of HK$10.78 per Share	(3,815,214)	4,436,188	10,253,755	10,874,729	3.32	3.79
Based on an Offer Price of HK$12.98 per Share	(3,815,214)	5,349,654	10,253,755	11,788,195	3.60	4.11

Notes:

(1) The consolidated net tangible liabilities attributable to equity shareholders of the Company as of December 31, 2022 is calculated based on the consolidated net liabilities attributable to equity shareholders of the Company as at December 31, 2022 of RMB3,815,214,000, as shown in the Accountants' Report as set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Global Offering are based on the expected issuance of 490,699,800 Shares and the indicative Offer Prices of HK$10.78 per Share (being the minimum Offer Price) and HK$12.98 per Share (being the maximum Offer Price), after deduction of the estimated underwriting fees and other estimated expenses related to the Global offering paid or payable by the Group (excluding the listing expense that have been charged to profit or loss during the Track Record Period), and do not take into account of any shares which may be issued upon the exercise of the Over-allotment Option.

For illustrative purpose, the estimated net proceeds of the Global Offering have been converted to Renminbi at an exchange rate of HK$1 to RMB0.8769 published by PBOC prevailing on April 7, 2023. No representation is made that Hong Kong dollars amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rate.

(3) As at December 31, 2022, the carrying amount of financial instruments issued to an investor, which represented the Series A Preferred Shares issued, was RMB10,253,755,000 (as set out in Note 23 of Appendix I to this prospectus). Upon Listing, the preferred shares will be automatically converted into ordinary shares and will be reclassified from liabilities to equity.

(4) The unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share is arrived at after adjustments as described referred to in the preceding paragraphs and on the basis that 3,271,331,050 Shares were in issue assuming that the Global Offering and conversation of preferred shares into ordinary shares had been completed on December 31, 2022, but do not take into account of any shares which may be issued upon the exercise of the Over-allotment Option.

(5) The unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share amounts in RMB are converted to Hong Kong dollars with an exchange rate of RMB1 to HK$1.1403 published by PBOC prevailing on April 7, 2023. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rate.

(6) No adjustment has been made to the unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company to reflect any trading results or other transactions of the Group subsequent to December 31, 2022.

Please refer to "Appendix II — Unaudited Pro Forma Financial Information" for further details.

FUTURE PLANS

See the section headed "Business — Our Growth Strategies" in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

The table below sets forth the estimated net proceeds of the Global Offering which we will receive after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering (assuming the Over-allotment Option is not exercised):

Assuming an Offer Price of HK$11.88 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	HK$5,518 million
Assuming an Offer Price of HK$12.98 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	HK$6,039 million
Assuming an Offer Price of HK$10.78 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	HK$4,997 million

We intend to use the net proceeds as follows (based on the mid-point of the Offer Price range stated in this prospectus):

- approximately 55.0%, or HK$3,035 million, will be used over the next five years to fund the construction and development of our production facilities, thereby expanding our baijiu production capacity progressively. In the past few years, China's baijiu market has continued to grow, with revenue increasing from RMB536.4 billion in 2018 to RMB603.3 billion in 2021. Driven by continued product innovation, improvement of baijiu-making techniques and consumers' increasing awareness, such growth momentum is expected to remain strong in the near future. According to Frost & Sullivan, China's baijiu market is expected to continue to expand from RMB621.1 billion in 2022 to RMB769.5 billion in 2026, representing a CAGR of 5.5%. Additionally, due to increasing market acceptance, China's sauce aroma baijiu market has grown at a CAGR of 15.8% from RMB105.6 billion in 2017 to RMB190.0 billion in 2021. It is expected that sauce aroma baijiu to continue to grow significantly in market share, and become the largest aroma type in terms of revenue in China's baijiu market by 2026, with market share of 41.8%. See "Industry Overview" for details.

To capture these tremendous market opportunities, we believe it is in our best interest to scale our baijiu production capacity rapidly in the next few years, with a goal to solidify our market leadership and improve our profitability through economies of scale to drive long-term growth. We plan for the expansion of three existing production facilities and the construction of one new production facility to increase our production capacity. These planned projects are expected to increase our annual production capacity of base liquor by 26,000 tons by 2024, among which 16,600 tons are for sauce aroma base liquor. In addition, we plan to build a new base liquor storage facility, namely *Zhen Jiu* (Bai Yan Gou) (白岩溝), to accommodate our expanding production capacity. Set forth below are certain details of these production facilities and our intended allocation of net proceeds among these production facilities:

Production Facility	Geographic Location	Major Brand(s) Served	Designed Production Capacity of Base Liquor (tons per year)	Intended Allocation of Net Proceeds from the Global Offering (HK$ in millions)
Zhen Jiu (Zhao Jia Gou) (趙家溝) (Expansion)	Zunyi, Guizhou	*Zhen Jiu*	6,000	848
Zhen Jiu (Mao Tai Zhen Shuang Long) (茅台鎮雙龍) (Expansion)	Zunyi, Guizhou	*Zhen Jiu*	10,600	1,044
Zhen Jiu (Bai Yan Gou) (白岩溝)	Zunyi, Guizhou	*Zhen Jiu*	N/A, base liquor storage facility	704
Li Du (Zheng Jia Shan) (鄭家山)	Lidu, Jiangxi	*Li Du*	5,000	320
Xiang Jiao (Jiang Bei) (江北) (Expansion)	Shaoyang, Hunan	*Xiang Jiao* and *Kai Kou Xiao*	4,400	119

We build these production facilities with a view to ramping up our baijiu production capacity for mid- to long-term customer demand. The utilization of these facilities depends on multiple factors, including changing market dynamics. For additional information, see "Business — Production Facilities — Planned Production Capacity Expansion."

We intend to use the net proceeds to fund the construction and development of these production facilities, including:

(i) approximately 30.0%, or HK$1,655 million, will be used to fund the construction of factory buildings at these production facilities, and the allocation of amount is determined by reference to the expected capital expenditures required to complete the construction, as well as capital and other resources available to us;

(ii) approximately 15.0%, or HK$828 million, will be used to recruit, train and retain staff at these production facilities, and this allocation of amount is determined based on the estimation that an aggregate number of approximately 1,800 to 3,000 staff will be recruited to these production facilities as the construction progresses and our production capacity in these production facilities continues to ramp up; and

(iii) approximately 10.0%, or HK$552 million, will be used to purchase equipment and facilities, such as pipe conveyors, air coolers, liquor tanks, dual-beam cranes, and packaging lines, to be installed across these production facilities. This allocation of amount is determined based on the estimated number of each of such equipment and facilities that our new production facilities would require and their respective market prices;

- approximately 20.0%, or HK$1,104 million, will be used over the next five years in brand building and market promotion, with a goal to drive brand awareness and foster a growing loyal consumer base. Historically we have benefited from our substantial investments in widespread advertisement placement, which has been a large component of our selling and distribution expenses. Our advertisement expenses amounted to RMB241.7 million, RMB669.2 million and RMB665.6 million in 2020, 2021 and 2022, respectively. These investments have enabled us to significantly increase our exposure to target consumers and build a strong brand awareness, which have driven our revenue growth during the Track Record Period. Going forward, we plan to continue to increase and optimize advertisements placement across media channels, including television and radio, airport and railway stations, outdoor billboards, office and residential building elevators and online channels. In particular, we plan to increase our investment in online marketing initiatives and campaigns, including launching short videos oriented to baijiu culture and our brands and partnering with key opinion leaders across social media platforms, to convey our brand propositions and encourage viral dissemination of our brand names. In addition, we intend to constantly organize and sponsor industry events, such as distillery tours and baijiu tasting events, to drive consumers' awareness about baijiu and our brands particularly.

- approximately 10.0%, or HK$552 million, will be used over the next five years to expand our sales channels, with a goal to continue to drive revenue growth, including:

  - approximately 6.0%, or HK$331 million, will be used to expand our distribution network across China, including to provide operational support for our distributors pursuant to our distribution agreements to motivate their sales and marketing activities; and

  - approximately 4.0%, or HK$221 million, will be used to strengthen our sales team to drive our direct sales and to better serve our expanding distribution network, including recruiting, training and retaining in-house sales personnel and ramping up our business presence across various e-commerce platforms;

- approximately 5.0%, or HK$276 million, will be used over the next five years to automate and digitalize our business operations leveraging advanced technologies such as data analytics, artificial intelligence, and IoT, with a goal to streamline and optimize baijiu production process, improve operational efficiency and drive long-term profitable growth;

- the remaining approximately 10.0%, or HK$552 million, will be used for working capital and general corporate purposes.

The following table sets out how the proceeds are expected to be allocated in the next few years with respect to each of the intended uses mentioned above.

	2023	**2024**	**2025**	**2026**	**2027**
			(%)		
Construction and development of production facilities[1]	30	25	20	15	10
Brand building and market promotion	5	10	20	30	35
Expansion of sales channels	5	15	20	25	35
Business automation and digitalization transformation	25	35	20	10	10
Working capital and general corporate purposes	20	20	20	20	20

Note:

(1) The proceeds are expected to be applied to the construction and development of certain facilities auxiliary to the production facilities currently under construction, such as warehouses, administration buildings and greening, from 2025 to 2027.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated offer price range.

To the extent our net proceeds are either more or less than expected, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by the relevant law and regulations, we can only place the net proceeds into short-term deposits with licensed banks and authorized financial institutions in Hong Kong or the PRC (as defined under the Securities and Futures Ordinance and the applicable laws in the PRC). We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

If the Over-allotment Option is fully exercised, our Company will receive additional net proceeds of approximately HK$844 million for 73,604,800 Shares to be allotted and issued upon the full exercise of the Over-allotment Option based on the Offer Price of HK$11.88 per Offer Share, being the mid-point of the Offer Price range, and after deducting the underwriting fees and commissions payable by our Company. The additional amount raised will be applied to the above areas of use of proceeds on pro-rata basis.

HONG KONG UNDERWRITERS

Goldman Sachs (Asia) L.L.C.

China Securities (International) Corporate Finance Company Limited

China International Capital Corporation Hong Kong Securities Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between the Overall Coordinators (for themselves and on behalf of the Underwriters) and the Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 49,070,000 Hong Kong Offer Shares and the International Offering of initially 441,629,800 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed "Structure of the Global Offering" in this prospectus as well as to the Over-allotment Option (in the case of the International Offering).

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on April 14, 2023. Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus, the application forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) on the Main Board of the Stock Exchange and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, the application forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Joint Sponsors and the Overall Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled, in their sole and absolute discretion, by giving notice to the Company and the Controlling Shareholders to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

(a) there develops, occurs, exists or come into force:

(i) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national, regional or international emergency or war, calamity, crisis, epidemic, pandemic, outbreaks, adverse mutation or aggravation of diseases (including, without limitation, COVID-19, Severe Acute Respiratory Syndrome (SARS), swine or avian flu, H5N1, H1N1, H7N9, Ebola virus, Middle East respiratory syndrome and such related/mutated forms), comprehensive sanctions, strikes, labor disputes, lock-outs, fire, explosion, flooding, earthquake, tsunami, volcanic eruption, riots, rebellion, civil commotion, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed), paralysis in government operations, aircraft collision in or affecting the Cayman Islands, Singapore, Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), or any other jurisdiction relevant to the Group (each a "**Relevant Jurisdiction**" and collectively, the "**Relevant Jurisdictions**"); or

(ii) any change or development involving a prospective change, or any event or circumstances or series of events likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, legal, fiscal, regulatory, taxation, foreign investment regulations, currency, credit or market matters or conditions, equity securities or exchange control or any monetary or trading settlement system or other financial markets (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting any of the Relevant Jurisdictions; or

(iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, or the Singapore Stock Exchange; or

(iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other Authority (as defined in the Hong Kong Underwriting Agreement)), New York (imposed at the U.S. Federal or New York State level or by any other Authority), London, the PRC, the European Union (or any member thereof) or any of the other Relevant Jurisdictions (declared by the relevant Authorities) or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions; or

(v) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any Authority in or affecting any of the Relevant Jurisdictions; or

(vi) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or

(vii) other than with the prior consent of the Joint Sponsors and the Overall Coordinators (for themselves and on behalf of the Hong Kong Underwriters), the issue or requirement to issue by the Company of a supplement or amendment to this Prospectus, the application form(s), the Offering Circular (as defined in the International Underwriting Agreement) or other documents in connection with the offer and sale of the Offer Shares pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any requirement or request of the Hong Kong Stock Exchange and/or the SFC; or

(viii) any valid demand by creditors for repayment of indebtedness or an order or petition for the winding up or liquidation of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or

(ix) any litigation, dispute, legal action or claim or regulatory or administrative investigation or action being threatened or instigated against any member of the Group or any Director; or

(x) any contravention by any member of the Group (save as disclosed in this Prospectus) or any Director of any applicable laws or the Listing Rules; or

(xi) any Director or member of senior management of the Company is vacating his or her office, is being charged with an indictable offense or is prohibited by operation of law or otherwise disqualified from taking part in the management or taking directorship of a company or there is the commencement by any Authority of any investigation or other action against any Director or member of senior management of the Company in his or her capacity as such or any member of the Group or an announcement by any Authority that it intends to commence any such investigation or take any such action; or

(xii) any non-compliance of this Prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or

(xiii) any change or prospective change or development, or a materialization of, any of the risks set out in the section headed "Risk Factors" in this Prospectus;

which, individually or in the aggregate, in the sole and absolute opinion of the Joint Sponsors and the Overall Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

(A) has or will have or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, earnings, results of operations, performance, position or condition, financial or otherwise, of the Group taken as a whole or to any present or prospective shareholder of the Company in its capacity as such; or

(B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications for or the distribution of the Offer Shares under the Hong Kong Public Offering or the level of interest under the International Offering; or

(C) makes or will make or may make it inadvisable, inexpedient, impracticable or incapable for the Hong Kong Public Offering and/or the International Offering to proceed or to market the Global Offering or the delivery or distribution of the Offer Shares on the terms and in the manner contemplated by the Offering Related Documents (as defined below); or

(D) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(b) there has come to the notice of the Joint Sponsors and the Overall Coordinators (for themselves and on behalf of the Hong Kong Underwriters) that:

(i) any statement contained in this Prospectus, the application form(s), the formal notice and/or any notices, announcements, advertisements, communications or other documents (including any announcement, circular, document or other communication pursuant to the Hong Kong Underwriting Agreement) issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering, including any supplement or amendment thereto but excluding factual information solely relating to the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Capital Market Intermediaries, which, for the purpose of this paragraph, include only their respective marketing names, legal names, logos and addresses (the "**Offering Related Documents**") was, when it was issued, or has become, untrue, incorrect, inaccurate, incomplete in any material respects or misleading or deceptive, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of such documents is not fair and honest and based on reasonable grounds or reasonable assumptions; or

(ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the Hong Kong Prospectus, constitute a material omission from, or misstatement in, any of the Offering Related Documents; or

(iii) there is a breach of, or any event or circumstance rendering untrue, incorrect, incomplete or misleading in any respect any of the Warranties (as defined in the Hong Kong Underwriting Agreement) given by the Company or any of the Controlling Shareholders in the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(iv) there is a material breach of any of the obligations imposed upon the Company or any of the Controlling Shareholders under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(v) there is an event, act or omission which gives or is likely to give rise to any liability of the Company or any of the Controlling Shareholders pursuant to the indemnities given by any of them under the Hong Kong Underwriting Agreement; or

(vi) there is any Material Adverse Change (as defined in the Hong Kong Underwriting Agreement); or

(vii) the approval of the Listing Committee of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including pursuant to any exercise of the Over-Allotment Option) is refused or not granted, other than subject to customary conditions, on or before the date of the Listing, or if granted, the approval is subsequently withdrawn, canceled, qualified (other than by customary conditions), revoked or withheld; or

(viii) any person (other than any of the Joint Sponsors) has withdrawn its consent to the issue of the Hong Kong Prospectus with the inclusion of its reports, letters and/or opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or

(ix) the Company withdraws the Offering Related Documents or the Global Offering; or

(x) there is a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering; or

(xi) a material portion of the orders placed or confirmed in the bookbuilding process have been withdrawn, terminated or canceled.

LOCK-UP ARRANGEMENTS

Undertakings by the Company and the Controlling Shareholders to the Stock Exchange pursuant to the Listing Rules

(A) Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued by the Company or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except (a) pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), and (b) under any of the other circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and the Company that, except pursuant to the Global Offering and the Over-allotment Option, it will not:

(1) in the period commencing on the date by reference to which disclosure of its holding of Shares is made in this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-Month Period**"), either directly or indirectly, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of the Company in respect of which it is shown in this prospectus to be the beneficial owner(s) (the "**Relevant Securities**") (save for a pledge or charge of any Relevant Securities as security in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan); or

(2) in the period of six months commencing from the expiry of the First Six-Month Period, either directly or indirectly, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Securities (save for a pledge or charge of any Relevant Securities as security in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan), if immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a Controlling Shareholder of the Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and the Company that during the First Six-Month Period and six months following the First Six-Month Period:

(1) if it pledges or charges any Relevant Securities in favor of an authorized institution (as defined in the Banking Ordinance) for a bona fide commercial loan pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, it will immediately inform the Company of such pledge or charge together with the number of the Relevant Securities so pledged or charged; and

(2) if it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, it will immediately inform the Company in writing of such indications.

Undertakings by the Company pursuant to the Hong Kong Underwriting Agreement

The Company hereby undertakes to each of the Joint Sponsors, the Joint Global Coordinators, the Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Capital Market Intermediaries that, except for (a) the issue, offer or sale of the Offer Shares pursuant to the Global Offering (including pursuant to any exercise of the Over-allotment Option) and (b) the issue of Shares by the Company pursuant to the Post-IPO Equity Incentive Plan, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the "**First Six-Month Period**"), it will not, without the prior written consent of the Joint Sponsors and the Overall Coordinators (for themselves and on behalf of the Hong Kong Underwriters) unless in compliance with the requirements of the Listing Rules:

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase any legal or beneficial interest in any Shares or other securities of the Company or any interest in any of the foregoing (including, but not limited to, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of the Company, as applicable, with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of any Shares or other securities of the Company, as applicable, or any interest in any of the foregoing (including without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or

(iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above; or

(iv) offer or agree or contract to, or announce or publicly disclose any intention to, effect any such transaction described in paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of the Shares or other securities of the Company, in cash or otherwise (whether or not the issue of such Shares or other securities of the Company will be completed within the First Six-Month Period).

In the event that, during the period of six months commencing on the date on which the First Six month Period expires (the "**Second Six-Month Period**"), the Company enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers or agrees or contracts to, or announces or publicly discloses any intention to, effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares or other securities of the Company. The Controlling Shareholders undertakes to each of the Joint Sponsors, the Joint Global Coordinators, the Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Capital Market Intermediaries to procure the Company to comply with the undertakings in this sub-section.

Undertakings by the Controlling Shareholders pursuant to the Hong Kong Underwriting Agreement

Each of the Controlling Shareholders has undertaken to each of the Company, the Joint Global Coordinators, the Overall Coordinators, the Joint Bookrunners, the Joint Lead Manager, the Hong Kong Underwriters, the Capital Market Intermediaries and the Joint Sponsors that, without the prior written consent of the Joint Sponsors and the Overall Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

(i) it will not, and will procure that the relevant registered holder(s) will not, at any time during the First Six-Month Period:

(a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including, but not limited to, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by him or it as of the Listing Date (the "Controlling Shareholders' Locked-up Securities"), or deposit any Shares or other securities of the Company with a depositary in connection with the issue of depositary receipt;

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Controlling Shareholders' Locked-up Securities;

(c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or

(d) offer or agree or contract to, or announce or publicly discloses any intention to, effect any transaction specified in paragraphs (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraphs (a), (b) or (c) above is to be settled by delivery of the Shares or other securities of the Company or in cash or otherwise and whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period;

(ii) it will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraphs (a), (b) or (c) above, or offer or agree or contract to, or announce or publicly disclose any intention to, effect any such transaction if, immediately following any such transaction, it will cease to be a "controlling shareholder" (as the term is defined in the Listing Rules) of the Company;

(iii) until the expiry of the Second Six-Month Period, if it enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers or agrees or contracts to, or announce or publicly disclose any intention to, effect any such transaction , it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company; and

at any time during after the date of the Hong Kong Underwriting Agreement up to and including the date falling 12 months after the Listing Date, it will (i) upon any pledge or charge by it or the relevant registered holder(s) in favor of an authorized institution (as defined in the Banking Ordinance) of any Shares or other securities of the Company (or interests therein) beneficially owned by it for a bona fide commercial loan, immediately inform the Company, the Overall Coordinators and the Joint Sponsors in writing of such pledge or charge together with the number of Shares or other securities of the Company so pledged or charged; and (ii) upon any indication received by it or the relevant registered holder(s), either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or other securities of the Company (or interests therein) will be disposed of, immediately inform the Company and the Overall Coordinators and the Joint Sponsors in writing of such indications. The Company undertakes to each of the Joint Global Coordinators, the Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters, the Capital Market Intermediaries and the Joint Sponsors that it shall, upon receiving such information in writing from any of the Controlling Shareholders, as soon as practicable and if required pursuant to the Listing Rules, notify the Stock Exchange and make a public disclosure in relation to such information by way of an announcement.

Undertakings by our Pre-IPO Investors

Each of ChinaNet and Zest Holdings has undertaken to each of the Company, the Joint Sponsors and the Overall Coordinators that it will not, and will procure that its respective affiliates will not, without the prior written consent of the Company, the Joint Sponsors and the Overall Coordinators, dispose of any Shares beneficially owned by it as of the Listing Date (the "**Locked-up Securities**") for a period of six months from the Listing Date (the "**Lock-up Period**"), save for certain special circumstances.

For the purpose of the above undertaking, "dispose of" means:

(1) sell, pledge, mortgage, charge, hypothecate, hedge, lend, grant or sell any option, warrant or other right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Locked-up Securities;

(2) enter into any swap or other arrangement that transfers to another person, in whole or in part, any of the economic consequences of ownership of any Locked-up Securities;

(3) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (1) or (2) above; or

(4) offer to or contract to or agree to or publicly disclose that it will or may enter into any transaction described in sub-paragraphs (1), (2) or (3) above,

whether any such transaction described in sub-paragraphs (1), (2) or (3) above is to be settled by delivery of such Shares or any options or warrants relating to such Shares, in cash or otherwise (whether or not the settlement or delivery of such Shares or any options or warrants relating to such Shares will be completed within the Lock-up Period).

Hong Kong Underwriters' Interests in the Company

Save as disclosed in this prospectus, and save for their respective obligations under the Hong Kong Underwriting Agreement and, if applicable, the Stock Borrowing Agreement, as of the Latest Practicable Date, none of the Hong Kong Underwriters was interested, legally or beneficially, directly or indirectly, in any Shares or any securities of any member of the Group or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Shares or any securities of any member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, the Company and the Controlling Shareholders expect to enter into the International Underwriting Agreement with, amongst others, the International Underwriters on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers or purchasers for, or themselves to subscribe for or purchase, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See the section headed "Structure of the Global Offering — The International Offering."

Over-allotment Option

The Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Overall Coordinators (on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which the Company may be required to issue up to an aggregate of 73,604,800 Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, to cover over-allocations in the International Offering, if any. See the section headed "Structure of the Global Offering — Over-allotment Option."

Commissions and Expenses

All Capital Market Intermediaries participating in the Global Offering will receive an aggregate underwriting commission of (a) 3.0% of the aggregate Offer Price payable in respect of all of the Offer Shares (including any Offer Shares issued pursuant to the exercise of the Over-allotment Option) (the "**Gross Proceeds**"), assuming that the Gross Proceeds are less than or equal to US$700 million; or (b) 2.5% of the Gross Proceeds, assuming that the Gross Proceeds are more than US$700 million (the "**Underwriting Commission**"). In addition, the Company may, in its sole discretion, pay to all Capital Market Intermediaries an incentive fee in an aggregate of up to 1% of the aggregate Offer Price payable in respect of all of the Offer Shares (including any Offer Shares issued pursuant to the exercise of the Over-allotment Option) (the "**Discretionary Fee**"). Assuming the Discretionary Fees are paid in full, the ratio of the fixed amount of the Underwriting Commission payable to all Capital Market Intermediaries (the "**Fixed Fees**") and Discretionary Fees payable to all Capital Market Intermediaries is approximately (a) 66:34, assuming that the Gross Proceeds are less than or equal to US$700 million; or (b) 63:37, assuming that the Gross Proceeds are more than US$700 million. For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay the underwriting commission for such Shares to the International Underwriters (but not the Hong Kong Underwriters).

The aggregate amount of sponsor fee payable by our Company to the Joint Sponsors is approximately US$1,000,000.

The aggregate underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy, the AFRC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately HK$311 million (assuming an Offer Price of HK$11.88 per Offer Share (which is the mid-point of the Offer Price range), the full payment of the discretionary incentive fee and the Over-allotment Option is not exercised) and will be paid by the Company.

Indemnity

The Company has agreed to indemnify each of the Joint Sponsors, the Joint Global Coordinators, the Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers, Hong Kong Underwriters and the Capital Market Intermediaries for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by any of the Company and the Controlling Shareholders of the Hong Kong Underwriting Agreement.

ACTIVITIES BY SYNDICATE MEMBERS

The Underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group's loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed "Structure of the Global Offering." Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking, lending and other services to the Company and each of its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

THE GLOBAL OFFERING

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors have made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

490,699,800 Offer Shares will initially be made available under the Global Offering comprising:

(a) the Hong Kong Public Offering of initially 49,070,000 Shares (subject to reallocation) in Hong Kong as described in the paragraph headed " — The Hong Kong Public Offering" below; and

(b) the International Offering of initially 441,629,800 Shares (subject to reallocation and the Over-allotment Option) (i) in the United States solely to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in paragraph headed " — The International Offering" below.

Investors may either (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or (ii) apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 15.0% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 16.9% of the total Shares in issue immediately following the completion of the Global Offering.

References in this prospectus to applications, **GREEN** Application Form, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

The Company is initially offering 49,070,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 1.5% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the paragraph headed " — Conditions of the Global Offering" below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot and with any odd lots being allocated to Pool A) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, the SFC transaction levy, the AFRC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, the SFC transaction levy, the AFRC transaction levy and the Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the "price" for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 24,535,000 Hong Kong Offer Shares is liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times and (c) 100 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 147,210,000 Offer Shares (in the case of (a)), 196,280,000 Offer Shares (in the case of (b)) and 245,350,000 Offer Shares (in the case of (c)), representing approximately 30%, 40% and 50% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Overall Coordinators deem appropriate.

In addition, the Overall Coordinators may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with the Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, in the event that (i) the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offer Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed as to less than 15 times of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 98,140,000 Shares) and the final Offer Price range shall be fixed at the bottom end of the indicative Offer Price range (i.e. HK$10.78 per Offer Share).

In addition, the Overall Coordinators (for themselves and on behalf of the Underwriters) may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Overall Coordinators may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Overall Coordinators deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$12.98 per Offer Share in addition to the brokerage, the SFC transaction levy, the AFRC transaction levy and the Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK$2,622.18 for one board lot of 200 Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed " — Pricing and Allocation" below, is less than the maximum Offer Price of HK$12.98 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy, the AFRC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed "How to Apply for Hong Kong Offer Shares."

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

The International Offering will consist of an offering of initially 441,629,800 Shares, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering (subject to reallocation and the Over-allotment Option). The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 13.5% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States as well as institutional and professional investors and other investors anticipated to have a sizable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed " — Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares and/or hold or sell its Offer Shares after the Listing. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Group and the Shareholders as a whole.

The Overall Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Overall Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement described in the paragraph headed " — The Hong Kong Public Offering — Reallocation" above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, the Company is expected to grant the Over-allotment Option to the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Overall Coordinators (on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Company to issue up to an aggregate of 73,604,800 additional Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 2.2% of the total Shares in issue immediately following the completion of the Global Offering and the full exercise of the Over-allotment Option. If the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as the best interest of the Company, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (c) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (e) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (f) offering or attempting to do anything as described in paragraph (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

(a) as a result of effecting transactions to stabilize or maintain the market price of the Shares, the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Shares;

(b) there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;

(c) liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Shares;

(d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Saturday, May 20, 2023, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;

(e) the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and

(f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Over-Allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price or through the Stock Borrowing Agreement as detailed below or a combination of these means.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations, if any, in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may choose to borrow up to 73,604,800 Shares (being the maximum number of Shares which may be issued pursuant to the exercise of the Over-allotment Option) from Zhenjiu Holding, pursuant to the Stock Borrowing Agreement, which is expected to be entered into between the Stabilizing Manager (or its affiliates) and Zhenjiu Holding on or about the Price Determination Date.

If the Stock Borrowing Agreement with Zhenjiu Holding is entered into, the borrowing of Shares will only be effected by the Stabilizing Manager (or any person acting for it) for the settlement of over-allocations in the International Offering and such borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set out in Rule 10.07(3) of the Listing Rules, being that the Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering, are complied with.

The same number of Shares so borrowed must be returned to Zhenjiu Holding or its nominees, as the case may be, on or before the third business day following the earlier of (a) the last day for exercising the Over-allotment Option and (b) the day on which the Over- allotment Option is exercised in full.

The Shares borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Zhenjiu Holding by the Stabilizing Manager (or any person acting for it) in relation to such Shares borrowing arrangement.

PRICING AND ALLOCATION

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Thursday, April 20, 2023 and, in any event, no later than Wednesday, April 26, 2023, by agreement between the Overall Coordinators (for themselves and on behalf of the Underwriters) and the Company, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$12.98 per Offer Share and is expected to be not less than HK$10.78 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the maximum Offer Price of HK$12.98 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027%, AFRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.00565%, amounting to a total of HK$2,622.18 for one board lot of 200 Shares.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the lower end of the price range stated in this prospectus.

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Overall Coordinators (for themselves and on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of the Company, reduce the number of Offer Shares offered and/or the Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the websites of the Company and the Stock Exchange at **www.zjld.com** and **www.hkexnews.hk**, respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Overall Coordinators (for themselves and on behalf of the Underwriters), the Company, will be fixed within such revised Offer Price range.

As soon as practicable after such reduction of the number of Offer Shares and/or the Offer Price, the Company will also issue a supplemental prospectus updating investors of such reduction together with an update of all financial and other information in connection with such change, and, where appropriate, extend the period under which the Hong Kong Public Offering is open for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and the applicants who had applied for the Offer Shares will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

In the absence of any such notice and supplemental prospectus so published, the number of Offer Shares will not be reduced and/or the Offer Price will under no circumstances be set at a price that is not the Offer Price stated in this Prospectus.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in the section headed "How to Apply for Hong Kong Offer Shares — D. Publication of Results."

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, the Overall Coordinators (for themselves and on behalf of the Underwriters) and the Company agreeing on the Offer Price.

The Company and the Controlling Shareholders expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in the section headed "Underwriting."

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

(a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering on the Main Board of the Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;

(b) the Offer Price having been agreed between the Overall Coordinators (for themselves on behalf of the Underwriters) and the Company;

(c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and

(d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between the Overall Coordinators (for themselves and on behalf of the Underwriters) on or before Wednesday, April 26, 2023 the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company on the websites of the Company and the Stock Exchange at **www.zjld.com** and **www.hkexnews.hk**, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Hong Kong Offer Shares — F. Refund of Application Monies." In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Thursday, April 27, 2023, provided that the Global Offering has become unconditional in all respects at or before that time.

DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, April 27, 2023, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, April 27, 2023.

The Shares will be traded in board lots of 200 Shares each and the stock code of the Shares will be 6979.

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this prospectus or any printed copies of any application forms for use by the public.

This prospectus is available at the website of the Stock Exchange at **www.hkexnews.hk** under the "*HKEXnews > New Listings > New Listing Information*" section, and our website at **www.zjld.com**. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

A. APPLICATIONS FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

We will not provide any printed application forms for use by the public.

To apply for Hong Kong Offer Shares, you may:

(1) apply online through the **HK eIPO White Form** service in the **IPO App** (which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**) or at **www.hkeipo.hk**; or

(2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

   (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or

   (ii) (if you are an existing CCASS Investor Participant) giving **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

We, the Overall Coordinators, the **HK eIPO White Form** Service Provider and our and their respective agents may reject or accept any application, in full or in part, for any reason at our or their discretion.

2. WHO CAN APPLY

Eligibility for the Application

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If an application is made by a person under a power of attorney, we and the Overall Coordinators, as our agents, may accept it at our or their discretion, and on any conditions we or they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules or any relevant waivers that have been granted by the Stock Exchange, you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of Shares and/or any of our subsidiaries;

- you are a director or chief executive of the Company and/or any of our subsidiaries;
- you are a close associate of any of the above persons; or
- you have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

Items Required for the Application

If you apply for Hong Kong Offer Shares online through the **HK eIPO White Form** service, you must:

- have a valid Hong Kong identity card number/passport number (for individual applicant) or Hong Kong business registration/certificate of incorporation number (for body corporate applicant);
- have a Hong Kong address; and
- provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

3. Terms and Conditions of an Application

By applying through the application channels specified in this prospectus, you:

- undertake to execute all relevant documents and instruct and authorize us and/or the Overall Coordinators (or their agents or nominees), as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Cayman Companies Act;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;

- agree that none of us, the Joint Sponsors, the Joint Global Coordinators, the Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Capital Market Intermediaries, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering (the "**Relevant Persons**") and the **HK eIPO White Form** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);

- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;

- agree to disclose to us, the Hong Kong Branch Share Registrar, the receiving bank and the Relevant Persons any personal data which we or any of them may require about you and the person(s) for whose benefit you have made the application;

- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither we nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus;

- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong;

- agree that your application will be governed by the laws of Hong Kong;

- represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

- warrant that the information you have provided is true and accurate;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;

- authorize (i) us to place your name(s) or the name of HKSCC Nominees on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under our Memorandum and Articles of Association and (ii) us and/or our agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in " — Personal Collection" below to collect the Share certificate(s) and/or refund check(s) in person;

- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

- understand that we and the Overall Coordinators, will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the **HK eIPO White Form** service or by any one as your agent or by any other person; and

- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

4. Minimum Application Amount and Permitted Numbers

Your application through the **HK eIPO White Form** service or the **CCASS EIPO** service must be for a minimum of 200 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	HK$		*HK$*		*HK$*		*HK$*
200	2,622.18	6,000	78,665.42	100,000	1,311,090.34	3,000,000	39,332,709.90
400	5,244.36	7,000	91,776.32	200,000	2,622,180.65	3,500,000	45,888,161.56
600	7,866.54	8,000	104,887.23	300,000	3,933,270.99	4,500,000	58,999,064.86
800	10,488.73	9,000	117,998.13	400,000	5,244,361.32	5,000,000	65,554,516.50
1,000	13,110.90	10,000	131,109.02	500,000	6,555,451.66	6,000,000	78,665,419.80
1,200	15,733.08	20,000	262,218.07	600,000	7,866,541.98	7,000,000	91,776,323.10
1,400	18,355.27	30,000	393,327.09	700,000	9,177,632.31	8,000,000	104,887,226.40
1,600	20,977.44	40,000	524,436.13	800,000	10,488,722.65	9,000,000	117,998,129.70
1,800	23,599.63	50,000	655,545.16	900,000	11,799,812.96	10,000,000	131,109,033.00
2,000	26,221.81	60,000	786,654.20	1,000,000	13,110,903.30	15,000,000	196,663,549.50
3,000	39,332.71	70,000	917,763.23	1,500,000	19,666,354.96	20,000,000	262,218,066.00
4,000	52,443.61	80,000	1,048,872.27	2,000,000	26,221,806.60	24,535,000[(1)]	321,676,012.47
5,000	65,554.52	90,000	1,179,981.29	2,500,000	32,777,258.26		

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. Applying Through the HK eIPO White Form Service

General

Individuals who meet the criteria in " — Who Can Apply" above may apply through the **HK eIPO White Form** service for the Offer Shares to be allocated and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are set out in the **IPO App** or on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to us. If you apply through the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** Service Provider.

Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application through the **HK eIPO White Form** service in the **IPO App** or through the designated website at **www.hkeipo.hk** (24 hours daily, except on the last day for applications) from 9:00 a.m. on Monday, April 17, 2023 until 11:30 a.m. on Thursday, April 20, 2023 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, April 20, 2023, the last day for applications, or such later time as described in " — C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" below.

No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 42E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. Applying Through CCASS EIPO Service

General

You may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf. CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to us, the Sponsor, the Overall Coordinators and the Hong Kong Branch Share Registrar.

Applying through CCASS EIPO Service

Where you have applied through **CCASS EIPO** service (either indirectly through a broker or custodian or directly) and an application is made by HKSCC Nominees on your behalf:

- HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus; and
- HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as its agent;

- confirm that you understand that we, our Directors and the Overall Coordinators, will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

- authorize us to place HKSCC Nominees' name on our register of members as the holder of the Hong Kong Offer Shares allocated to you, and dispatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;

- agree that neither we nor any of the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);

- agree to disclose to us, the Hong Kong Branch Share Registrar, the receiving bank and the Relevant Persons any personal data which we or they may require about you;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us, and to become binding when you give the instructions and such collateral contract to be in consideration of our agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions)

Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by us;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with us, for ourselves and for the benefit of each shareholder (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for us and on behalf of each shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Cayman Companies Act; and

- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong.

Effect of Applying through CCASS EIPO Service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to us or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy, AFRC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy, AFRC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

Time for Inputting Electronic Application Instructions[(1)]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, April 17, 2023 — 9:00 a.m. to 8:30 p.m.
Tuesday, April 18, 2023 — 8:00 a.m. to 8:30 p.m.
Wednesday, April 19, 2023 — 8:00 a.m. to 8:30 p.m.
Thursday, April 20, 2023 — 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, April 17, 2023 until 12:00 noon on Thursday, April 20, 2023 (24 hours daily, except on Thursday, April 20, 2023, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, April 20, 2023, the last day for applications, or such later time as described in " — C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" below.

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants, CCASS Custodian Participants and/or CCASS Investor Participants.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.

No Multiple Application

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The following Personal Information Collection Statement applies to any personal data held by us, the Hong Kong Branch Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of us and our Hong Kong Branch Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to us or our agents and the Hong Kong Branch Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Branch Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of us or our Hong Kong Branch Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform us and the Hong Kong Branch Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund check, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of our Shares including, where applicable, HKSCC Nominees;
- maintaining or updating our Register of Members;
- verifying identities of the holders of our Shares;
- establishing benefit entitlements of holders of our Shares, such as dividends, rights issues, bonus issues, etc.;

- distributing communications from us and our subsidiaries;
- compiling statistical information and profiles of the holder of our Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable us and the Hong Kong Branch Share Registrar to discharge our or their obligations to holders of our Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by us and our Hong Kong Branch Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but we and our Hong Kong Branch Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- our appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to us or the Hong Kong Branch Share Registrar in connection with their respective business operation;
- the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

We and our Hong Kong Branch Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfill the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Hong Kong Offer Shares have the right to ascertain whether we or the Hong Kong Branch Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. We and the Hong Kong Branch Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to us, at our registered address disclosed in the section headed "Corporate Information" in this prospectus or as notified from time to time, for the attention of the secretary, or our Hong Kong Branch Share Registrar for the attention of the privacy compliance officer.

7. Warning for Electronic Applications

The application for the Hong Kong Offer Shares by **CCASS EIPO** service (directly or indirectly through your broker or custodian) is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Offer Shares through the **HK eIPO White Form** service is only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. We, the Relevant Persons, the **HK eIPO White Form** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through **CCASS EIPO** service or person applying through the **HK eIPO White Form** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should go to HKSCC's Customer Service Center to complete an input request form for electronic application instructions before 12:00 noon on Thursday, April 20, 2023, the last day for applications, or such later time as described in "C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" below.

8. How Many Applications Can You Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee and apply through the **HK eIPO White Form** service, in the box marked "For Nominees", you must include an account number or some other identification code for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner when you fill in the application details. If you do not include this information, the application will be treated as being made for your own benefit.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your broker or custodian) or through the **HK eIPO White Form** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

The Hong Kong Branch Share Registrar will record all applications into its system and identify suspected multiple applications with identical names, identification document numbers and reference numbers according to the Best Practice Note on Treatment of Multiple/Suspected Multiple Applications issued by the Federation of Share Registrars Limited.

With regard to the announcement of results of allocations under the section headed " — Publication of Results", the list of identification document number(s) may not be a complete list of successful applicants, only successful applicants whose identification document numbers are provided to HKSCC by CCASS Participants are disclosed. Applicants who applied for the Offer Shares through their brokers can consult their brokers to enquire about their application results.

Since applications are subject to personal information collection statements, beneficial owner identification codes displayed are redacted. Applicants with beneficial names only but not identification document numbers are not disclosed due to personal privacy issue.

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

B. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK$12.98 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027%, AFRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.00565%. This means that for one board lot of 200 Hong Kong Offer Shares, you will pay HK$2,622.18.

You must pay the maximum Offer Price, together with brokerage, SFC transaction levy, AFRC transaction levy and Stock Exchange trading fee, in full upon application for Hong Kong Offer Shares.

You may submit an application through the **HK eIPO White Form** service or the **CCASS EIPO** service in respect of a minimum of 200 Hong Kong Offer Shares. If you make an **electronic application instruction** for more than 200 Hong Kong Offer Shares, the number of Hong Kong Offer Shares you apply for must be in one of the specified numbers set out in the section " — 4. Minimum Application Amount and Permitted Numbers", or otherwise specified in the IPO App or on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy, AFRC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see "Structure of the Global Offering — Pricing and Allocation."

C. EFFECT OF BAD WEATHER AND EXTREME CONDITIONS ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a "black" rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, April 20, 2023. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, April 20, 2023 or if there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in "Expected Timetable," an announcement will be made on our website at **www.zjld.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

D. PUBLICATION OF RESULTS

We expect to announce the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Wednesday, April 26, 2023 on our website at **www.zjld.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on our website and the website of the Stock Exchange at **www.zjld.com** and **www.hkexnews.hk**, respectively, by no later than Wednesday, April 26, 2023;
- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** or **www.hkeipo.hk/IPOResult** with a "search by ID function" on a 24 hour basis from 8:00 a.m. on Wednesday, April 26, 2023 to 12:00 midnight on Tuesday, May 2, 2023; and
- from the allocation results telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, April 26, 2023, to Tuesday, May 2, 2023 (excluding Saturday, Sunday and public holiday in Hong Kong).

If we accept your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in "Structure of the Global Offering."

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

E. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

If your application is revoked:

By applying through the **CCASS EIPO** service or through the **HK eIPO White Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus; or

- if any supplement to this prospectus is issued, in which case applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

If we or our agents exercise discretion to reject your application:

We, the Overall Coordinators, the **HK eIPO White Form** Service Provider and our and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

If:

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your payment is not made correctly;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the **IPO App** or on the designated website at **www.hkeipo.hk**;
- you apply for more than 24,535,000 Hong Kong Offer Shares, being 50% of the 49,070,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- we, or the Overall Coordinators, believe that by accepting your application, a violation of applicable securities or other laws, rules or regulations would result; or
- the Underwriting Agreements do not become unconditional or are terminated.

F. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price per Offer Share (excluding brokerage, SFC transaction levy, AFRC transaction levy and Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in "Structure of the Global Offering — Conditions of the Global Offering" are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, AFRC transaction levy and Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Wednesday, April 26, 2023.

G. DISPATCH/COLLECTION OF SHARE CERTIFICATES/E-AUTO REFUND PAYMENT INSTRUCTIONS/REFUND CHECKS

You will receive one Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the Share certificates will be deposited into CCASS as described below).

The Company will not issue temporary evidence of title in respect of the Offer Shares. The Company will not issue receipt for sums paid on application.

Subject to arrangement on dispatch/collection of Share certificates and refund checks as mentioned below, any refund checks and Share certificate(s) are expected to be posted on or before Wednesday, April 26, 2023. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of check(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, April 27, 2023, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

Personal Collection

- ***If you apply through HK eIPO White Form service:***
  - If you apply for 1,000,000 Hong Kong Offer Shares or more through the **HK eIPO White Form** service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, April 26, 2023, or any other place or date notified by us.
  - If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.
  - If you do not personally collect your Share certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
  - If you apply for less than 1,000,000 Hong Kong Offer Shares through the **HK eIPO White Form** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, April 26, 2023 by ordinary post and at your own risk.
  - If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address specified in your application instructions in the form of refund check(s) by ordinary post and at your own risk.

- ***If you apply through CCASS EIPO service:***

  Allocation of Hong Kong Offer Shares

  - For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

  Deposit of Share Certificates into CCASS and Refund of Application Monies

  - If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, April 26, 2023 or on any other date determined by HKSCC or HKSCC Nominees.

  - We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in " — Publication of Results" above on Wednesday, April 26, 2023. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, April 26, 2023 or such other date as determined by HKSCC or HKSCC Nominees.

  - If you have instructed your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.

  - If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, April 26, 2023. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

  - Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy, AFRC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your **broker** or **custodian** on Wednesday, April 26, 2023.

H. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second settlement day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

We have made all necessary arrangements to enable the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I–1 to I–76, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ZJLD GROUP INC, GOLDMAN SACHS (ASIA) L.L.C. AND CHINA SECURITIES (INTERNATIONAL) CORPORATE FINANCE COMPANY LIMITED

Introduction

We report on the historical financial information of ZJLD Group Inc (the "Company") and its subsidiaries (together, the "Group") set out on pages I–3 to I–76, which comprises the consolidated statements of financial position of the Group as at 31 December 2020, 2021 and 2022 and the statements of financial position of the Company as at 31 December 2021 and 2022, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended 31 December 2020, 2021 and 2022 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I–3 to I–76 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 17 April 2023 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2020, 2021 and 2022 and the Company's financial position as at 31 December 2021 and 2022, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I–3 have been made.

Dividends

We refer to Note 24(f) to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Period.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its incorporation.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

17 April 2023

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

Consolidated statements of profit or loss and other comprehensive income
(Expressed in Renminbi ("RMB"))

	Note	**Years ended 31 December** 2020 *RMB'000*	2021 *RMB'000*	2022 *RMB'000*
Revenue	*4*	2,398,915	5,101,593	5,855,917
Cost of sales		(1,145,794)	(2,371,847)	(2,616,987)
Gross profit	*4(b)*	1,253,121	2,729,746	3,238,930
Other income	*5*	50,268	47,660	83,174
Selling and distribution expenses		(402,873)	(1,020,510)	(1,342,057)
Administrative expenses		(157,906)	(289,344)	(381,135)
Impairment loss on trade receivables	*25(a)*	(1,308)	(982)	(3,720)
Profit from operations		741,302	1,466,570	1,595,192
Finance costs	*6(a)*	(39,743)	(36,420)	(29,445)
Changes in fair value in financial instruments issued to an investor	*23*	–	(21,617)	(130,668)
Profit before taxation		701,559	1,408,533	1,435,079
Income tax	*7*	(181,471)	(376,336)	(405,213)
Profit attributable to equity shareholders of the Company for the year		520,088	1,032,197	1,029,866
Other comprehensive income for the year (after tax)				
Items that may be reclassified subsequently to profit or loss:				
– Exchange differences on translation of financial statements into presentation currency		–	9,383	(837,382)
Total comprehensive income attributable to equity shareholders of the Company for the year		520,088	1,041,580	192,484
Earnings per share				
– Basic and diluted (RMB)	*10*	N/A	N/A	N/A

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of financial position
(Expressed in RMB)

	Note	At 31 December		
		2020	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*11*	828,663	2,328,804	3,775,286
Deferred tax assets	*22(b)*	1,066	1,312	37,703
		829,729	2,330,116	3,812,989
Current assets				
Inventories	*13*	1,736,924	3,649,323	5,138,510
Trade and bills receivables	*14*	74,159	64,734	179,782
Prepayments, deposits and other receivables	*15*	28,849	55,567	130,354
Income tax recoverable	*22(a)*	–	–	113,806
Amounts due from related parties	*16*	1,664,999	–	–
Cash at bank and on hand	*17(a)*	311,348	1,544,715	1,683,448
		3,816,279	5,314,339	7,245,900
Current liabilities				
Trade payables	*18*	144,661	550,649	1,045,530
Other payables and accruals	*19*	1,971,055	3,533,762	3,400,271
Amounts due to related parties	*16*	–	198,135	–
Bank and other borrowings	*20(a)*	895,500	710,000	36,600
Lease liabilities	*21*	14,897	25,340	28,024
Current taxation	*22(a)*	404,199	442,222	61,560
		3,430,312	5,460,108	4,571,985
Net current assets/(liabilities)		385,967	(145,769)	2,673,915
Total assets less current liabilities		1,215,696	2,184,347	6,486,904

The accompanying notes form part of the Historical Financial Information.

	Note	At 31 December 2020 RMB'000	2021 RMB'000	2022 RMB'000
Non-current liabilities				
Bank and other borrowings	*20(b)*	56,600	186,600	–
Lease liabilities	*21*	29,632	43,722	37,164
Financial instruments issued to an investor	*23*	–	8,756,882	10,253,755
Deferred tax liabilities	*22(b)*	–	11,199	11,199
		86,232	8,998,403	10,302,118
NET ASSETS/(LIABILITIES)		1,129,464	(6,814,056)	(3,815,214)
CAPITAL AND RESERVES	*24*			
Share capital		–	30	30
Reserves		1,129,464	(6,814,086)	(3,815,244)
TOTAL EQUITY/(TOTAL EQUITY - DEFICIT)		1,129,464	(6,814,056)	(3,815,214)

The accompanying notes form part of the Historical Financial Information.

Statements of financial position of the Company
(Expressed in RMB)

	Note	At 31 December 2021 *RMB'000*	2022 *RMB'000*
Non-current assets			
Interests in subsidiaries	*12*	1,511,639	5,501,274
Property and equipment		–	5,832
		1,511,639	5,507,106
Current assets			
Other receivables	*15*	99,695	110,118
Cash at bank and on hand	*17(a)*	409,873	67,336
		509,568	177,454
Current liabilities			
Other payables and accruals	*19*	100,065	116,560
Lease liabilities		–	1,042
		100,065	117,602
Net current assets		409,503	59,852
Total assets less current liabilities		1,921,142	5,566,958
Non-current liabilities			
Lease liabilities		–	3,893
Financial instruments issued to an investor	*23*	8,756,882	10,253,755
		8,756,882	10,257,648
NET LIABILITIES		(6,835,740)	(4,690,690)
CAPITAL AND RESERVES	*24*		
Share capital		30	30
Reserves		(6,835,770)	(4,690,720)
TOTAL EQUITY - DEFICIT		(6,835,740)	(4,690,690)

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of changes in equity
(Expressed in RMB)

	Attributable to equity shareholders of the Company					
	Share capital *RMB'000* *(Note 24(b))*	**Share premium** *RMB'000* *(Note 24(c))*	**Capital reserve** *RMB'000* *(Note 24(d))*	**Exchange reserve** *RMB'000* *(Note 24(e))*	**Retained profits** *RMB'000*	**Total** *RMB'000*
Balance at 1 January 2020	–	–	201,357	–	403,719	605,076
Changes in equity for the year ended 31 December 2020:						
Profit and total comprehensive income for the year	–	–	–	–	520,088	520,088
Capital contributions into a subsidiary	–	–	4,300	–	–	4,300
Balance at 31 December 2020	–	–	205,657	–	923,807	1,129,464

The accompanying notes form part of the Historical Financial Information.

		Attributable to equity shareholders of the Company					
	Note	**Share capital** *RMB'000* *(Note 24(b))*	**Share premium** *RMB'000* *(Note 24(c))*	**Capital reserve** *RMB'000* *(Note 24(d))*	**Exchange reserve** *RMB'000* *(Note 24(e))*	**Retained profits** *RMB'000*	**Total** *RMB'000*
Balance at 1 January 2021		–	–	205,657	–	923,807	1,129,464
Changes in equity for the year ended 31 December 2021:							
Profit for the year		–	–	–	–	1,032,197	1,032,197
Other comprehensive income for the year		–	–	–	9,383	–	9,383
Total comprehensive income for the year		–	–	–	9,383	1,032,197	1,041,580
Capital contributions into subsidiaries		–	–	262,753	–	–	262,753
Deemed distribution arising from the Reorganisation (as defined in Note 1)	*1*	–	–	(527,053)	–	–	(527,053)
Issuance of ordinary shares	*24(b)*	30	11,753	–	–	–	11,783
Remeasurement of preference shares to fair value upon issuance	*23(a)*	–	–	(6,437,232)	–	–	(6,437,232)
Issuance of warrants	*23(b)*	–	–	(409,261)	–	–	(409,261)
Distributions/ dividends declared	*24(f)*	–	–	–	–	(1,886,090)	(1,886,090)
		30	11,753	(7,110,793)	–	(1,886,090)	(8,985,100)
Balance at 31 December 2021		30	11,753	(6,905,136)	9,383	69,914	(6,814,056)

The accompanying notes form part of the Historical Financial Information.

		Attributable to equity shareholders of the Company					
	Note	**Share capital** *RMB'000* *(Note 24(b))*	**Share premium** *RMB'000* *(Note 24(c))*	**Capital reserve** *RMB'000* *(Note 24(d))*	**Exchange reserve** *RMB'000* *(Note 24(e))*	**Retained profits** *RMB'000*	**Total** *RMB'000*
Balance at 1 January 2022		30	11,753	(6,905,136)	9,383	69,914	(6,814,056)
Changes in equity for the year ended 31 December 2022:							
Profit for the year		–	–	–	–	1,029,866	1,029,866
Other comprehensive income for the year		–	–	–	(837,382)	–	(837,382)
Total comprehensive income for the year		–	–	–	(837,382)	1,029,866	192,484
Remeasurement of preference shares to fair value upon issuance	*23(a)*	–	–	2,334,185	–	–	2,334,185
Termination of warrants	*23(b)*	–	–	472,173	–	–	472,173
		–	–	2,806,358	–	–	2,806,358
Balance at 31 December 2022		30	11,753	(4,098,778)	(827,999)	1,099,780	(3,815,214)

The accompanying notes form part of the Historical Financial Information.

Consolidated cash flow statements
(Expressed in RMB)

	Note	Years ended 31 December 2020 *RMB'000*	2021 *RMB'000*	2022 *RMB'000*
Operating activities				
Profit before taxation		701,559	1,408,533	1,435,079
Adjustments for:				
Depreciation expenses	*6(c)*	51,138	77,320	157,069
Finance costs	*6(a)*	39,743	36,420	29,445
Net loss on disposal of property, plant and equipment	*5*	1,599	6,948	909
Changes in fair value in financial instruments issued to an investor		–	21,617	130,668
Interest income	*5*	(2,783)	(12,705)	(30,767)
Changes in working capital:				
Increase in inventories		(228,087)	(1,912,399)	(1,489,187)
(Increase)/decrease in trade and bills receivables		(20,992)	9,425	(115,048)
Increase in prepayments, deposits and other receivables		(5,689)	(23,716)	(68,317)
Increase in trade payables		34,274	405,988	494,881
Increase/(decrease) in other payables and accruals		967,908	1,278,933	(319,249)
(Increase)/decrease in restricted bank deposits		(58)	19	(27)
Cash generated from operations		1,538,612	1,296,383	225,456
Income tax paid	*22(a)*	(14,634)	(327,360)	(936,072)
Net cash generated from/(used in) operating activities		1,523,978	969,023	(710,616)

The accompanying notes form part of the Historical Financial Information.

	Note	2020	2021	2022
		Years ended 31 December		
		RMB'000	*RMB'000*	*RMB'000*
Investing activities				
Payments for purchase of property, plant and equipment		(201,863)	(635,832)	(1,066,918)
Proceeds from disposal of property, plant, equipment		558	6,201	2,759
Payments for acquisitions of land use rights	*17(c)*	(57,172)	(768,047)	(355,319)
Interest received		2,783	12,705	30,767
Net cash used in investing activities		(255,694)	(1,384,973)	(1,388,711)
Financing activities				
Proceeds from bank and other borrowings	*17(b)*	885,500	840,000	490,000
Repayment of bank and other borrowings	*17(b)*	(886,000)	(895,500)	(1,350,000)
Capital element of lease rentals paid	*17(b)*	(1,391)	(14,307)	(20,742)
Interest element of lease rentals paid	*17(b)*	(1,665)	(2,265)	(3,310)
Proceeds from issuance of convertible and redeemable preference shares to an investor	*17(b)*	–	1,919,400	3,334,550
Proceeds from issuance of ordinary shares	*24(b)*	–	11,783	–
Net change in amounts due from/to related parties	*17(b)*	(1,030,960)	112,780	(198,135)
Capital contributions into subsidiaries		4,300	262,753	–
Payments for the Reorganisation		–	(527,053)	–
Expenses paid in connection with the proposed listing of the Company's shares		–	(3,002)	(6,470)
Interest paid	*17(b)*	(38,078)	(34,155)	(26,135)
Net cash (used in)/generated from financing activities		(1,068,294)	1,670,434	2,219,758
Net increase in cash and cash equivalents		199,990	1,254,484	120,431
Cash and cash equivalents at the beginning of the year	*17(a)*	111,300	311,290	1,544,676
Effect of foreign exchange rate changes		–	(21,098)	18,275
Cash and cash equivalents at the end of the year	*17(a)*	311,290	1,544,676	1,683,382

The accompanying notes form part of the Historical Financial Information.

Notes to the Historical Financial Information
(Expressed in RMB unless otherwise indicated)

1 Basis of preparation and presentation of the Historical Financial 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 is an investment holding company and has not carried on any business since the date of its incorporation save for the group reorganisation mentioned below. The Company and its subsidiaries (together, "the Group") are principally engaged in the making, production and sales of baijiu products (the "Listing Business") in the People's Republic of China (the "PRC").

Prior to the incorporation of the Company and completion of the corporate reorganisation as described below, the Listing Business of the Group were carried out through Guizhou Zhenjiu Brewing Co., Ltd. ("Zhenjiu Brewing"), Hunan Xiangjiao Liquor Industry Co., Ltd. ("Hunan Xiangjiao") and Jiangxi Lidu Liquor Industry Co., Ltd. ("Jiangxi Lidu"), and their subsidiaries (together referred to as the "Zhenjiu Group"), which are ultimately owned and controlled by Mr Wu Xiangdong (the "Controlling Shareholder").

To rationalise the corporate structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group underwent a reorganisation (the "Reorganisation"), as detailed in the section headed "History, Development and Corporate Structure" in the Prospectus. As part of the Reorganisation, Zhenjiu Brewing acquired the entire equity interests of Hunan Xiangjiao, Jiangxi Lidu and Jindong Sauce Liquor Brewing Co., Ltd. ("Jindong Sauce") at a total consideration of RMB135,300,000. Guizhou Zhenjiu Holding Co., Ltd. ("Guizhou Zhenjiu"), an indirect wholly owned subsidiary of the Company established in the PRC by another indirect wholly owned subsidiary of the Company, China Wine Holding Company Limited ("China Wine"), then acquired the entire equity interests of Zhenjiu Brewing at a consideration of RMB391,753,000. These acquisitions were completed in October 2021.

Upon completion of the Reorganisation on 23 October 2021, the Company, VATS Hunan Winery Limited, China Wine and Guizhou Zhenjiu, all of which are investment holding companies with no substantive operations, became the holding companies of the Zhenjiu Group. There was no change in the economic substance of the ownership, the business and operation of the Zhenjiu Group before and after the Reorganisation. Accordingly, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of the Zhenjiu Group with the assets and liabilities of the Zhenjiu Group recognised and measured at their historical carrying amounts prior to the Reorganisation. Intra-group balances, transactions and unrealised gains/losses on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the Track Record Period as set out in this report include the financial performance and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation or establishment, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2020, 2021 and 2022 as set out in this report have been prepared to present the financial position of the companies now comprising the Group as of those dates as if the current group structure had been in existence as of the respective dates taking into account the respective dates of incorporation or establishment, where applicable.

As at the date of this report, particulars of the Company's principal subsidiaries are as follows:

Company name	**Place and date of establishment/ incorporation**	**Particulars of registered and paid-in capital**	**Proportion of ownership interest**		**Principal activities**
			Held by the Company	**Held by subsidiaries**	
Hunan Xiangjiao Liquor Sales Co., Ltd. 湖南湘窖酒業銷售有限公司 *(Notes (i), (iv) and (vi))*	The PRC 28 November 2001	RMB5,000,000	–	100%	Sales of baijiu products
Jiangxi Lidu 江西李渡酒業有限公司 *(Notes (i), (iv) and (vi))*	The PRC 8 April 2002	RMB12,240,000	–	100%	Making and production of baijiu products
Hunan Xiangjiao 湖南湘窖酒業有限公司 *(Notes (i), (iv) and (vi))*	The PRC 7 November 2003	RMB101,010,000	–	100%	Making and production of baijiu products
China Wine *(Notes (iii) and (v))*	Hong Kong 9 March 2009	50,000 shares	–	100%	Investment holding
Zhenjiu Brewing 貴州珍酒釀酒有限公司 *(Notes (i), (iv) and (vi))*	The PRC 28 September 2009	RMB1,500,000,000	–	100%	Making and production of baijiu products
Guizhou Zhenjiu Sales Co., Ltd. 貴州珍酒銷售有限公司 *(Notes (i), (iv) and (vi))*	The PRC 15 October 2009	RMB2,000,000	–	100%	Sales of baijiu products
VATS Hunan Winery Limited *(Notes (iii) and (vi))*	The British Virgin Islands ("BVI") 14 February 2012	United States Dollar ("USD")1	100%	–	Investment holding
Tibet Xiangjiao Liquor Sales Co., Ltd. 西藏湘窖酒業銷售有限公司 *(Notes (i), (iv) and (vi))*	The PRC 28 February 2013	RMB5,000,000	–	100%	Sales of baijiu products
Jiangxi Lidu Liquor Sales Co., Ltd. 江西李渡酒業銷售有限公司 *(Notes (i), (iv) and (vi))*	The PRC 16 June 2015	RMB3,000,000	–	100%	Sales of baijiu products
Guizhou Zhenjiu Trading Co., Ltd. 貴州珍酒貿易有限公司 *(Notes (i), (iv) and (vi))*	The PRC 10 July 2019	RMB500,000	–	100%	Sales of baijiu products
Jindong Sauce 金東醬酒釀造有限公司 *(Notes (i), (iv) and (vi))*	The PRC 20 January 2020	RMB100,000,000	–	100%	Making and production of baijiu products
Shaoyang Xiangjiao Trading Co., Ltd. 邵陽湘窖商貿有限公司 *(Notes (i), (iv) and (vi))*	The PRC 26 April 2020	RMB 500,000	–	100%	Sales of baijiu products
Longhui Xiangjiao Trading Co., Ltd. 隆回湘窖商貿有限公司 *(Notes (i), (iv) and (vi))*	The PRC 13 October 2020	RMB1,000,000	–	100%	Sales of baijiu products

Company name	Place and date of establishment/ incorporation	Particulars of registered and paid-in capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by subsidiaries	
Nanchang Lidu Trading Co., Ltd. 南昌李渡商貿有限公司 *(Notes (i), (iv) and (vi))*	The PRC 24 September 2021	Registered capital of RMB1,000,000 and paid-in capital of RMBNil	–	100%	Sales of baijiu products
Guizhou Zhenjiu 貴州珍酒控股有限公司 *(Notes (ii), (iv) and (vi))*	The PRC 18 October 2021	RMB1,500,000,000	–	100%	Investment holding
Guizhou Zhenjiu Commercial Trading Co., Ltd. 貴州珍酒商貿有限公司 *(Notes (i), (iv) and (vi))*	The PRC 10 December 2021	RMB10,000,000	–	100%	Sales of baijiu products
Jiangxi Lidu Trading Co., Ltd. 江西李渡貿易有限公司 *(Notes (i), (iv) and (vi))*	The PRC 15 December 2021	RMB10,000,000	–	100%	Sales of baijiu products
Changsha Xiangjiao Liquor Trading Co., Ltd. 長沙湘窖酒業商貿有限公司 *(Notes (i), (iv) and (vi))*	The PRC 22 December 2021	RMB3,000,000	–	100%	Sales of baijiu products
Guizhou Heyuan Brewing Co., Ltd. 貴州荷苑釀酒有限公司 *(Notes (i), (iv) and (vi))*	The PRC 29 April 2022	RMB10,000,000	–	100%	Making and production of baijiu products
Hunan Zhenjiu Trading Co., Ltd. 湖南珍酒商貿有限公司 *(Notes (i), (iv) and (vi))*	The PRC 26 September 2022	RMB5,000,000	–	100%	Sales of baijiu products
Hunan Zhenjiu Zhenpin Catering Co., Ltd. 湖南珍酒珍品餐飲有限公司 *(Notes (i), (iv) and (vi))*	The PRC 24 November 2022	Registered capital of RMB2,000,000 and paid-in capital of RMB1,000,000	–	100%	Sales of baijiu products

Notes:

(i) These companies are limited liability companies established in the PRC.

(ii) This company is a wholly foreign owned enterprise established in the PRC.

(iii) These companies are limited liability companies incorporated outside of the PRC (excluding Hong Kong).

(iv) The official names of these entities are in Chinese. The English translations are for identification only.

(v) The statutory financial statements of this entity for the year ended 31 December 2020 was audited by UP CPA & Co.

(vi) As at the date of this report, no audited financial statements have been prepared for these entities.

All companies now comprising the Group adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB"). Further details of the significant accounting policies adopted by the Group are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised IFRSs to the Track Record Period, except for any new standards, amendments or interpretations that are not yet effective for the accounting period beginning on 1 January 2022. The new and revised accounting standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2022 are set out in Note 29.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

As at 31 December 2022, the Group had net liabilities of RMB3,815,214,000 including liabilities arising from financial instruments issued to an investor amounted to RMB10,253,755,000. The directors of the Company are of the opinion that no payment is expected for the settlement of the liabilities arising from financial instruments issued to an investor as the related redemption option would be terminated and the financial instruments would be converted into equity upon the listing of the Company's shares on the Stock Exchange. Taken the above into consideration, and together with cashflow forecast for the year ending 31 December 2023 prepared by management of the Group, the directors of the Company are of the opinion that the Group will have sufficient financial resources to continue as a going concern for the next twelve months. Therefore, the directors of the Company are satisfied that it is appropriate to prepare the Historical Financial Information on a going concern basis.

2 Significant accounting policies

(a) Basis of measurement

The Historical Financial Information is presented in RMB, rounded to the nearest thousand.

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis, except for derivative financial instruments which are stated at their fair values as explained in Note 2(e).

(b) Use of estimates and judgements

The preparation of the Historical Financial Information in conformity with IFRSs 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.

Judgements made by management in the application of IFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(c) Business combinations under common control

Business combinations under common control involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under common control of the controlling entity. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination. All differences between the cost of acquisition and the amount at which the assets and liabilities are recorded are recognised directly in equity as part of equity.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(h)(ii)) unless the investment is classified as held for sale.

(e) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)).

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

	Estimated useful lives
Right-of-use assets	Over the terms of leases
Plant and buildings	20 years
Machinery and equipment	3 – 10 years
Office equipment and others	3 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest expense capitalised during the periods of construction and installation.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

(g) Leased assets

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the Group has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16, *Leases*. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after each reporting period end.

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost (including cash at bank and on hand, trade and bills receivables, prepayments, deposits and other receivables, and amounts due from related parties).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls of trade and other receivables are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the end of each reporting period; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the end of each reporting period.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the end of each reporting period with that assessed at the date of initial recognition.

In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligation to the Group in full, without recourse by the Group to action such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at the end of each reporting period to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(r)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At the end of each reporting period, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets; and
- interests in subsidiaries in the Company's statement of financial position

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(h)(i)).

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in Note 2(h)(i).

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(t)).

(n) Convertible and redeemable financial instrument

The Company issued redeemable preference shares, in which elements of conversion options are embedded.

The instrument is classified as a liability, because in case of occurrence of triggering events, which are beyond control of the Company, the instrument is redeemable at the option of the holder within specified periods. The liability is initially recognised and subsequently remeasured at fair value which represents the settlement that would be triggered by the event with the highest settlement outcome. The gain or loss on remeasurement is recognised in profit or loss.

If the preference shares are converted, the capital reserve, together with the carrying amount of the liability at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued.

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income tax levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

The Group is the principal for its revenue transactions and recognises revenue on a gross basis. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of baijiu products

The Group is principally engaged in the making, production and sales of baijiu products.

Revenue from sales of baijiu products is recognised at the point in time when the Group transfers control over a product to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any volume rebates.

The Group offers retrospective volume rebates to certain customers when their purchases reach an agreed threshold. Such volume rebates give rise to variable consideration. The Group uses an expected value approach to estimate variable consideration based on the Group's current and future performance expectations and all information that is reasonably made available. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. At the time of sale of baijiu products, the Group recognises revenue after taking into account adjustment to transaction price arising from rebates as mentioned above. A liability is recognised for the expected rebates and is included in other payables and accruals (see Note 19).

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(h)(i)).

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and subsequently recognised in profit or loss over the useful life of the related asset on a systematic basis.

(s) Translation of foreign currencies

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into RMB, the Group's presentation currency, at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of each reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group.
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Accounting judgements and estimates

Key sources of estimation uncertainty are as follows:

(a) Variable consideration for volume rebates

The Group estimates variable consideration included in the transaction price arising from the sales of baijiu products where volume rebates are offered. The Group uses judgement in estimating the amount of volume rebates based on the customer's historical rebate rates, accumulated purchases to date, as well as estimates of future purchases. Changes in these estimates could have a significant impact on the amount of revenue recognised in future periods.

(b) Expected credit losses for receivables

The credit losses for trade and other receivables are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, which are based on the Group's past collection history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 25(a). Changes in these assumptions and estimates could materially affect the result of the assessment and the Group may be necessary to make additional loss allowances in future periods.

(c) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(h)(ii). These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(d) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and residual values, if any, of the property, plant and equipment periodically in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of useful lives and residual values, if any, are based on the historical experience with similar assets and taking into account anticipated changes on how such assets are to be deployed. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(e) Fair value of financial instruments issued to an investor

The fair value of financial instruments issued to an investor at the dates of issue and the end of the reporting periods were determined based on the valuation performed by an independent valuer, using valuation techniques. The Company uses its judgements to select a variety of methods and make assumptions that are mainly based on market conditions existing at the respective valuation dates. As disclosed in Note 25(d)(i), the Company has used equity allocation model to determine the fair values of the financial liabilities arising from the preference shares and binomial lattice model to determine the fair values of the financial liabilities arising from the warrants, which involved the use of significant accounting estimates and judgements.

4 Revenue

(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 4(b). Revenue disaggregated by major brands of baijiu products is as follows:

	Years ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Zhen Jiu	1,345,546	3,487,573	3,822,696
Li Du	359,225	649,954	886,850
Xiang Jiao	394,879	605,569	712,791
Kai Kou Xiao	172,033	256,579	338,675
Others	127,232	101,918	94,905
	2,398,915	5,101,593	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 Track Record Period.

The Group's customer base is diversified. During the Track Record Period, there is no single customer with whom transactions have exceeded 10% of the Group's revenue in the respective periods.

The Group has also applied the practical expedient in paragraph 121(a) of IFRS 15 to its sales contracts for baijiu products such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of baijiu products 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 Track Record Period. 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 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 Track Record Period is set out below.

	Year ended 31 December 2020					
	Zhen Jiu	**Li Du**	**Xiang Jiao**	**Kai Kou Xiao**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,345,546	359,225	394,879	172,033	127,232	2,398,915
Reportable segment gross profit	708,302	245,865	232,557	63,351	3,046	1,253,121

	Year ended 31 December 2021					
	Zhen Jiu	**Li Du**	**Xiang Jiao**	**Kai Kou Xiao**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	3,487,573	649,954	605,569	256,579	101,918	5,101,593
Reportable segment gross profit	1,800,011	434,064	388,497	102,032	5,142	2,729,746

	Year ended 31 December 2022					
	Zhen Jiu	**Li Du**	**Xiang Jiao**	**Kai Kou Xiao**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	3,822,696	886,850	712,791	338,675	94,905	5,855,917
Reportable segment gross profit	2,097,231	575,902	429,849	130,510	5,438	3,238,930

(ii) Reconciliations of reportable segment profit or loss

	Years ended 31 December		
	2020 *RMB'000*	**2021** *RMB'000*	**2022** *RMB'000*
Total reportable segment gross profit	1,253,121	2,729,746	3,238,930
Other income	50,268	47,660	83,174
Selling and distribution expenses	(402,873)	(1,020,510)	(1,342,057)
Administrative expenses	(157,906)	(289,344)	(381,135)
Impairment loss on trade receivables	(1,308)	(982)	(3,720)
Finance costs	(39,743)	(36,420)	(29,445)
Changes in fair value in financial instruments issued to an investor	–	(21,617)	(130,668)
Consolidated profit before taxation	701,559	1,408,533	1,435,079

(iii) Geographic information

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

5 Other income

	Years ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Government grants	22,663	21,189	20,440
Interest income	2,783	12,705	30,767
Net income from sales of raw materials and sub-standard work in progress and maturing inventories	24,680	15,559	21,020
Fees received from distributors for non-compliance with distribution agreements	267	4,111	8,990
Net loss on disposal of property, plant and equipment	(1,599)	(6,948)	(909)
Others	1,474	1,044	2,866
	50,268	47,660	83,174

6 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs

	Years ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses on bank and other borrowings	38,078	34,155	26,135
Interest expenses on lease liabilities (Note 11(b))	1,665	2,265	3,310
	39,743	36,420	29,445

(b) Staff costs#

	Years ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and other benefits	302,489	590,282	1,102,323
Contributions to defined contribution retirement plans (Notes (i), (ii) and (iii))	19,670	72,760	119,989
	322,159	663,042	1,222,312

Notes:

(i) The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) 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 during the Track Record Period. Employees of these subsidiaries are entitled to receive retirement benefits, calculated based on a percentage of the average salaries level in the PRC (other than Hong Kong), 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 contributions mentioned in (i) and (ii) above.

(c) Other items

	Years ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation expenses# (Note 11)			
- property, plant and equipment	42,368	62,520	118,855
- right-of-use assets	8,770	14,800	38,214
	51,138	77,320	157,069
Auditors' remuneration:			
- statutory audit service	20	–	–
- professional services in connection with the proposed initial listing of the Company's shares	–	8,075	10,914
Other professional service fees in connection with the proposed initial listing of the Company's shares (excluding RMBNil, RMB3,002,000 and RMB6,470,000 recognised as prepayments for the years ended 31 December 2020, 2021 and 2022, respectively (see Note 15))	–	8,937	25,841
Cost of inventories# (Note 13)	767,825	1,585,236	1,703,502

Cost of inventories includes RMB92,547,000, RMB111,820,000 and 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 6(b) for each of these types of expenses for the years ended 31 December 2020, 2021 and 2022, respectively.

7 Income tax in the consolidated statements of profit or loss and other comprehensive income

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represent:

	Years ended 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Current taxation (Note 22(a))			
Provision for the year	181,798	365,383	441,604
Deferred taxation (Note 22(b))			
Origination and reversal of temporary differences	(327)	(246)	(36,391)
Withholding tax in connection with distributions made by a subsidiary	–	11,199	–
	(327)	10,953	(36,391)
	181,471	376,336	405,213

(b) Reconciliations between tax expenses and accounting profits at applicable tax rates:

	Years ended 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	701,559	1,408,533	1,435,079
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	175,390	360,929	394,103
Tax effect of non-deductible expenses	6,083	4,208	11,110
Tax concessions (Note (iv))	(2)	–	–
Tax effect of withholding tax in connection with distributions made by a subsidiary (Note (v))	–	11,199	–
Income tax	181,471	376,336	405,213

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and 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 subsidiary of the Group incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong Profits Tax during the Track Record Period.

(iii) The subsidiary of the Group established in the PRC (excluding Hong Kong) is subject to PRC Corporate Income Tax ("CIT") rate at 25% during the Track Record Period.

(iv) In accordance with relevant rules and regulations of CIT in the PRC, a subsidiary of the Group established in the western region in the PRC enjoyed a preferential CIT tax rate of 15% for the year ended 31 December 2020.

(v) Guizhou Zhenjiu declared a distribution of RMB111,990,000 to its immediate holding company, China Wine, on 22 November 2021. Accordingly, a deferred tax liability of RMB11,199,000 (Note 22(b)) calculated at the applicable withholding tax rate of 10% has been recognised at 31 December 2021.

8 Directors' emoluments

Details of emoluments of directors of the Company during the Track Record Period are as follows:

	Year ended 31 December 2020				
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr Wu Xiangdong	–	4,857	–	23	4,880
Mr Yan Tao	–	2,488	1,717	23	4,228
Ms Zhu Lin	–	1,183	345	23	1,551
Mr Luo Yonghong	–	1,183	345	23	1,551
	–	9,711	2,407	92	12,210

	Year ended 31 December 2021				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr Wu Xiangdong	–	5,096	–	29	5,125
Mr Yan Tao	–	2,612	1,754	29	4,395
Ms Zhu Lin	–	1,277	373	29	1,679
Mr Luo Yonghong	–	1,277	373	29	1,679
Mr Ng Kwong Chue Paul	–	443	170	–	613
Non-executive director					
Mr Sun Zheng	–	–	–	–	–
	–	10,705	2,670	116	13,491

	Year ended 31 December 2022				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr Wu Xiangdong	–	5,923	–	29	5,952
Mr Yan Tao	–	3,658	3,627	46	7,331
Ms Zhu Lin	–	1,652	768	60	2,480
Mr Luo Yonghong	–	1,652	768	60	2,480
Mr Ng Kwong Chue Paul	–	1,937	743	31	2,711
Non-executive director					
Mr Sun Zheng	–	–	–	–	–
	–	14,822	5,906	226	20,954

Mr Wu Xiangdong was appointed as executive director and chairman of the board of directors of the Company on 24 September 2021.

Mr Yan Tao, Ms Zhu Lin and Mr Luo Yonghong were appointed as executive directors of the Company on 25 November 2021.

Mr Wu Xiangdong, Mr Yan Tao, Ms Zhu Lin and Mr Luo Yonghong received emoluments from a related party in their roles as directors or key management personnel of subsidiaries of the Group before their appointments as executive directors of the Company. Emoluments of RMB10,892,000, RMB9,262,000 and RMBNil were paid and borne by this related party for the years ended 31 December 2020, 2021 and 2022, respectively. These amounts are shown in the above tables for information only (see Note 27(b)).

Mr Ng Kwong Chue Paul was appointed as executive director of the Company on 5 October 2021.

Mr Sun Zheng was appointed as non-executive director of the Company on 25 November 2021.

9 Individuals with highest emoluments

During the Track Record Period, of the five individuals with the highest emoluments, four, four and four are directors of the Company whose emoluments are disclosed in Note 8. The emoluments in respect of the remaining individual are as following:

	Years ended 31 December		
	2020 *RMB'000*	**2021** *RMB'000*	**2022** *RMB'000*
Salaries and other emoluments	101	175	1,567
Discretionary bonuses	1,500	2,500	1,000
Retirement scheme contributions	19	19	15
	1,620	2,694	2,582

The emoluments of the individual who is not a director of the Company and who is amongst the five highest paid individuals of the Group during the Track Record Period are within the following bands:

	Years ended 31 December		
	2020 *Number of individual*	**2021** *Number of individual*	**2022** *Number of individual*
HKD1,500,001 – HKD2,000,000	1	–	–
HKD2,500,001 – HKD3,000,000	–	–	1
HKD3,000,001 – HKD3,500,000	–	1	–

10 Earnings per share

No earnings per share information is presented in the Historical Financial Information as it would not provide a meaningful and comparable measure of the interests of each outstanding ordinary share of the Company in the performance of the Group during the Track Record Period.

11 Property, plant and equipment

(a) Reconciliations of carrying amounts

	Right-of-use assets *RMB'000* *(Notes 11(a)(ii), 11(a)(iii) and 11(b))*	Plant and buildings *RMB'000* *(Note 11(a)(ii))*	Machinery and equipment *RMB'000*	Office equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2020	194,146	562,384	141,649	34,476	82,130	1,014,785
Additions	67,835	–	21,323	8,539	192,075	289,772
Transfer in/(out)	–	114,801	11,799	5,532	(132,132)	–
Disposals	(698)	(3,361)	(3,052)	(907)	–	(8,018)
At 31 December 2020	261,283	673,824	171,719	47,640	142,073	1,296,539
Accumulated depreciation:						
At 1 January 2020	26,192	269,031	102,383	24,993	–	422,599
Charge for the year	8,770	29,580	8,902	3,886	–	51,138
Written back on disposals	(698)	(1,428)	(2,861)	(874)	–	(5,861)
At 31 December 2020	34,264	297,183	108,424	28,005	–	467,876
Carrying amount:						
At 31 December 2020	227,019	376,641	63,295	19,635	142,073	828,663
Cost:						
At 1 January 2021	261,283	673,824	171,719	47,640	142,073	1,296,539
Additions	806,751	–	79,700	15,452	688,707	1,590,610
Transfer in/(out)	–	380,130	22,993	3,356	(406,479)	–
Disposals	(9,819)	(8,006)	(5,798)	(1,909)	–	(25,532)
At 31 December 2021	1,058,215	1,045,948	268,614	64,539	424,301	2,861,617
Accumulated depreciation:						
At 1 January 2021	34,264	297,183	108,424	28,005	–	467,876
Charge for the year	14,800	38,696	16,811	7,013	–	77,320
Written back on disposals	(3,897)	(2,023)	(5,226)	(1,237)	–	(12,383)
At 31 December 2021	45,167	333,856	120,009	33,781	–	532,813
Carrying amount:						
At 31 December 2021	1,013,048	712,092	148,605	30,758	424,301	2,328,804

	Right-of-use assets RMB'000 (Notes 11(a)(ii), 11(a)(iii) and 11(b))	Plant and buildings RMB'000 (Note 11(a)(ii))	Machinery and equipment RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2022	1,058,215	1,045,948	268,614	64,539	424,301	2,861,617
Additions	372,188	–	99,317	16,865	1,118,849	1,607,219
Transfer in/(out)	–	1,023,523	131,782	10,440	(1,165,745)	–
Disposals	(2,496)	(1,317)	(14,763)	(2,004)	–	(20,580)
At 31 December 2022	1,427,907	2,068,154	484,950	89,840	377,405	4,448,256
Accumulated depreciation:						
At 1 January 2022	45,167	333,856	120,009	33,781	–	532,813
Charge for the year	38,214	64,395	42,532	11,928	–	157,069
Written back on disposals	(1,727)	(916)	(12,369)	(1,900)	–	(16,912)
At 31 December 2022	81,654	397,335	150,172	43,809	–	672,970
Carrying amount:						
At 31 December 2022	1,346,253	1,670,819	334,778	46,031	377,405	3,775,286

Notes:

(i) The Group's property, plant and equipment are all located in the PRC.

(ii) The Group has yet to obtain the ownership certificates for certain properties with aggregate carrying amounts of RMB196,547,000, RMB1,099,370,000 and RMB713,069,000 as at 31 December 2020, 2021 and 2022.

(iii) At 31 December 2020, 2021 and 2022, the carrying amounts of right-of-use assets included RMB76,750,000, RMB750,613,000 and RMB587,605,000 of prepayments made by the Group, respectively, to local government authorities with the intention to acquire land use rights for use as the Group's baijiu products making and production facilities. Included in these balances of prepayments made by the Group, RMB76,750,000, RMB426,413,000 and RMB539,819,000, respectively, were paid under the legal form of loan agreements for the purpose of dismantling and restoration of the land. The directors of the Company consider that the amounts paid out as prepayments and as loans, together, formed the cost of the land use rights acquired, which, in total, approximated the market values of premises nearby. Accordingly, the directors of the Company consider that the recognition of these payments as right-of-use assets in the consolidated statements of financial position to be appropriate. These right-of-use assets are depreciated over their respective terms of leases commencing from the dates of the related title ownership certificates are obtained.

(b) Right-of-use assets

The analyses of the carrying amounts of right-of-use assets by class of underlying asset are as follows:

	At 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Land use rights held for own use, carried at depreciated cost	159,485	244,871	1,212,143
Prepayments for acquisitions of land use rights to be held for own use, carried at cost	30,000	703,863	75,787
Plant and buildings leased for own use, carried at depreciated cost	37,534	64,314	58,323
	227,019	1,013,048	1,346,253

The analyses of expense items in relation to leases recognised in profit or loss are as follows:

	Years ended 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Depreciation expenses of right-of-use assets by class of underlying asset:			
– Land use rights held for own use	1,697	2,741	15,647
– Plant and buildings leased for own use	7,073	12,059	22,567
	8,770	14,800	38,214
Interest expenses on lease liabilities (Note 6(a))	1,665	2,265	3,310
Expenses relating to short-term leases	2,094	3,372	4,372

12 Interests in subsidiaries

The Company

	At 31 December	
	2021	2022
	RMB'000	*RMB'000*
Investment in a subsidiary, at cost	*	*
Amounts due from a subsidiary (Note (i))	1,511,639	5,501,274
	1,511,639	5,501,274

* The balance represents an amount less than RMB1,000.

Note:

(i) The amounts due from a subsidiary are unsecured, non-interest bearing and have no fixed terms of repayment. The directors of the Company consider these amounts due from a subsidiary are long-term interests that in substance form part of the Company's net investment in this subsidiary.

13 Inventories

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials and packaging materials	97,209	262,236	291,803
Work in progress and maturing inventories	1,342,376	2,592,796	3,793,366
Finished goods	297,339	794,291	1,053,341
	1,736,924	3,649,323	5,138,510

The analyses of the amounts of inventories recognised in profit or loss and other comprehensive income are as follows:

	Years ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amounts of inventories sold	767,825	1,585,236	1,703,502

14 Trade and bills receivables

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	57,809	61,547	127,552
Less: loss allowance (Note 25(a))	(4,264)	(5,246)	(8,966)
	53,545	56,301	118,586
Bills receivables	20,614	8,433	61,196
	74,159	64,734	179,782

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

(a) Ageing analyses

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

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Less than 3 months	37,898	45,785	97,530
More than 3 months but less than 6 months	11,163	4,228	10,219
More than 6 months but less than 12 months	3,719	4,157	10,837
More than 12 months	765	2,131	–
	53,545	56,301	118,586

The balances of bill receivables represent bank acceptance notes received from customers with maturity dates of less than six months at the end of each reporting period.

Further details on the Group's credit policy and credit risk are set out in Note 25(a).

15 Prepayments, deposits and other receivables

The Group	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Advances to staff	2,245	3,577	5,230
Deposits paid to suppliers	2,899	4,059	6,604
Deposits paid to lessors	1,439	3,376	4,506
Others	3,218	489	604
Financial assets measured at amortised cost	9,801	11,501	16,944
Prepayments for purchase of raw materials	2,680	6,081	15,366
Prepayments for operating expenses	15,903	29,169	39,958
Prepayments for costs incurred in connection with the proposed listing of the Company's shares (Note (i))	–	3,002	9,472
Value added tax recoverable	–	–	39,417
Others	465	5,814	9,197
	19,048	44,066	113,410
	28,849	55,567	130,354

Note:

(i) The balances will be transferred to the share premium account within equity upon the listing of the Company's shares on the Stock Exchange.

The Company

	At 31 December	
	2021	**2022**
	RMB'000	*RMB'000*
Dividends receivables	99,688	108,800
Others	7	1,318
	99,695	110,118

All of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

16 Amounts due from/to related parties

The amounts due from/to related parties were non-trade in nature, unsecured, non-interest bearing and had no fixed terms of repayment. These balances had been settled as at 31 December 2022.

17 Cash and cash equivalents and other cash flow information

(a) Cash and cash equivalents comprise:

The Group

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and on hand	311,290	1,544,676	1,683,382
Restricted bank deposits	58	39	66
Cash and cash equivalents in the consolidated statements of financial position	311,348	1,544,715	1,683,448
Less: restricted bank deposits	(58)	(39)	(66)
Cash and cash equivalents in the consolidated cash flow statements	311,290	1,544,676	1,683,382

The Company	**At 31 December**	
	2021	**2022**
	RMB'000	*RMB'000*
Cash at bank and on hand	409,873	67,336

The Group's operation in the PRC (excluding Hong Kong) conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) is subject to the exchange restrictions imposed by the PRC government.

(b) Reconciliations of assets/liabilities arising from financing activities

The tables below detail changes in the Group's assets/liabilities from financing activities, including both cash and non-cash changes. Assets/liabilities arising from financing activities are assets/liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statements as cash flows from financing activities.

	Bank and other borrowings	**Interest payable**	**Distributions/ dividends payables**	**Lease liabilities**	**Financial instruments issued to an investor**	**Amounts due (from)/ to related parties**	**Net**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 20)	*(Note 19)*	*(Note 19)*	*(Note 21)*	*(Note 23)*	*(Note 16)*	
At 1 January 2020	952,600	–	–	35,256	–	(634,039)	353,817
Changes from financing cash flows:							
Proceeds from bank and other borrowings	885,500	–	–	–	–	–	885,500
Repayment of bank and other borrowings	(886,000)	–	–	–	–	–	(886,000)
Interest paid	–	(38,078)	–	–	–	–	(38,078)
Capital element of lease rentals paid	–	–	–	(1,391)	–	–	(1,391)

	Bank and other borrowings *RMB'000* *(Note 20)*	Interest payable *RMB'000* *(Note 19)*	Distributions/ dividends payables *RMB'000* *(Note 19)*	Lease liabilities *RMB'000* *(Note 21)*	Financial instruments issued to an investor *RMB'000* *(Note 23)*	Amounts due (from)/to related parties *RMB'000* *(Note 16)*	Net *RMB'000*
Interest element of lease rentals paid	–	–	–	(1,665)	–	–	(1,665)
Net increase in amounts due from related parties	–	–	–	–	–	(1,030,960)	(1,030,960)
Total changes from financing cash flows	(500)	(38,078)	–	(3,056)	–	(1,030,960)	(1,072,594)
Other changes:							
Net increase in lease liabilities	–	–	–	10,664	–	–	10,664
Finance costs (Note 6(a))	–	38,078	–	1,665	–	–	39,743
Total other changes	–	38,078	–	12,329	–	–	50,407
At 31 December 2020	952,100	–	–	44,529	–	(1,664,999)	(668,370)

	Bank and other borrowings *RMB'000* *(Note 20)*	Interest payable *RMB'000* *(Note 19)*	Distributions/ dividends payables *RMB'000* *(Note 19)*	Lease liabilities *RMB'000* *(Note 21)*	Financial instruments issued to an investor *RMB'000* *(Note 23)*	Amounts due (from)/ to related parties *RMB'000* *(Note 16)*	Net *RMB'000*
At 1 January 2021	952,100	–	–	44,529	–	(1,664,999)	(668,370)
Changes from financing cash flows:							
Proceeds from bank and other borrowings	840,000	–	–	–	–	–	840,000
Repayment of bank and other borrowings	(895,500)	–	–	–	–	–	(895,500)
Interest paid	–	(34,155)	–	–	–	–	(34,155)
Capital element of lease rentals paid	–	–	–	(14,307)	–	–	(14,307)
Interest element of lease rentals paid	–	–	–	(2,265)	–	–	(2,265)
Proceeds from issuance of convertible and redeemable preference shares to an investor	–	–	–	–	1,919,400	–	1,919,400
Net increase in amounts due to related parties	–	–	–	–	–	112,780	112,780
Total changes from financing cash flows	(55,500)	(34,155)	–	(16,572)	1,919,400	112,780	1,925,953

	Bank and other borrowings *RMB'000* *(Note 20)*	Interest payable *RMB'000* *(Note 19)*	Distributions/ dividends payables *RMB'000* *(Note 19)*	Lease liabilities *RMB'000* *(Note 21)*	Financial instruments issued to an investor *RMB'000* *(Note 23)*	Amounts due (from)/ to related parties *RMB'000* *(Note 16)*	Net *RMB'000*
Other changes:							
Distributions/ dividends declared	–	–	1,886,090	–	–	–	1,886,090
Net increase in lease liabilities	–	–	–	38,840	–	–	38,840
Net change in the amounts of financial instruments issued to an investor	–	–	–	–	6,837,482	–	6,837,482
Finance costs (Note 6(a))	–	34,155	–	2,265	–	–	36,420
Non-cash transactions*	–	–	(1,750,354)	–	–	1,750,354	–
Total other changes	–	34,155	135,736	41,105	6,837,482	1,750,354	8,798,832
At 31 December 2021	896,600	–	135,736	69,062	8,756,882	198,135	10,056,415

* The amounts due from related parties were off-setted by profit distributions made by the Group (Note 24(f)) during the year ended 31 December 2021.

	Bank and other borrowings *RMB'000* *(Note 20)*	Interest payable *RMB'000* *(Note 19)*	Distributions/ dividends payables *RMB'000* *(Note 19)*	Lease liabilities *RMB'000* *(Note 21)*	Financial instruments issued to an investor *RMB'000* *(Note 23)*	Amounts due (from)/to related parties *RMB'000* *(Note 16)*	Net *RMB'000*
At 1 January 2022	896,600	–	135,736	69,062	8,756,882	198,135	10,056,415
Changes from financing cash flows:							
Proceeds from bank and other borrowings	490,000	–	–	–	–	–	490,000
Repayment of bank and other borrowings	(1,350,000)	–	–	–	–	–	(1,350,000)
Interests paid	–	(26,135)	–	–	–	–	(26,135)
Capital element of lease rentals paid	–	–	–	(20,742)	–	–	(20,742)
Interest element of lease rentals paid	–	–	–	(3,310)	–	–	(3,310)
Proceeds from issuance of convertible and redeemable preference shares to an investor	–	–	–	–	3,334,550	–	3,334,550
Net decrease in amounts due to related parties	–	–	–	–	–	(198,135)	(198,135)
Total changes from financing cash flows	(860,000)	(26,135)	–	(24,052)	3,334,550	(198,135)	2,226,228

	Bank and other borrowings RMB'000 (Note 20)	Interest payable RMB'000 (Note 19)	Distributions/ dividends payables RMB'000 (Note 19)	Lease liabilities RMB'000 (Note 21)	Financial instruments issued to an investor RMB'000 (Note 23)	Amounts due (from)/to related parties RMB'000 (Note 16)	Net RMB'000
Other changes:							
Net increase in lease liabilities	–	–	–	16,868	–	–	16,868
Net change in the amounts of financial instruments issued to an investor	–	–	–	–	(1,837,677)	–	(1,837,677)
Exchange adjustments	–	–	9,030	–	–	–	9,030
Finance costs (Note 6(a))	–	26,135	–	3,310	–	–	29,445
Total other changes	–	26,135	9,030	20,178	(1,837,677)	–	(1,782,334)
At 31 December 2022	36,600	–	144,766	65,188	10,253,755	–	10,500,309

(c) Total cash outflow for leases

Amounts of cash outflow for leases included in the consolidated cash flow statements comprise the following:

	Years ended 31 December		
	2020 RMB'000	**2021** RMB'000	**2022** RMB'000
Within operating cash flows	2,094	3,372	4,372
Within investing cash flows	57,172	768,047	355,319
Within financing cash flows	3,056	16,572	24,052
	62,322	787,991	383,743

These amounts relate to the following:

	Years ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Lease rentals paid	5,150	19,944	28,424
Payments for acquisitions of land use rights	57,172	768,047	355,319
	62,322	787,991	383,743

18 Trade payables

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Payables for purchases of inventories	144,661	550,649	1,045,530

Ageing analyses

The ageing analyses of trade payables, based on the invoice date, are as follows:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	139,911	545,373	1,039,299
1 to 2 years	2,662	3,368	6,142
2 to 3 years	2,088	1,908	89
	144,661	550,649	1,045,530

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

19 Other payables and accruals

The Group

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Accruals for sales rebates	367,704	870,434	713,472
Accruals for advertisement expenses	7,740	43,815	62,594
Payables for staff related costs	53,007	137,771	172,307
Other taxes payables	559,697	312,696	119,131
Payables for construction and purchases of property, plant and equipment	32,693	180,720	348,833
Payables for costs incurred in connection with the proposed listing of the Company's shares	–	3,774	15,368
Distributions/dividends payables	–	135,736	144,766
Others	26,673	31,419	32,529
Financial liabilities measured at amortised cost	1,047,514	1,716,365	1,609,000
Receipts in advance from customers	923,541	1,817,397	1,791,271
	1,971,055	3,533,762	3,400,271

The Company

	At 31 December	
	2021	**2022**
	RMB'000	*RMB'000*
Dividends payables	98,788	107,818
Others	1,277	8,742
	100,065	116,560

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

20 Bank and other borrowings

(a) The Group's short-term bank and other borrowings comprise:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Bank loans			
– unsecured and guaranteed by related parties (Note (i))	885,500	690,000	–
Add: current portion of long-term bank and other borrowings (Note 20(b))	10,000	20,000	36,600
	895,500	710,000	36,600

(b) The Group's long-term bank and other borrowings comprise:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings			
– unsecured and guaranteed by related parties (Note (i))	–	150,000	–
Other borrowings			
– unsecured and unguaranteed (Note (ii))	66,600	56,600	36,600
	66,600	206,600	36,600
Less: current portion of long-term bank and other borrowings (Note 20(a))	(10,000)	(20,000)	(36,600)
	56,600	186,600	–

Notes:

(i) These bank loans are collectively guaranteed by Hunan Jindong Liquor Industry Co., Ltd. ("Jindong Group") and Huaze Group Co., Ltd. ("Huaze Group"), both related parties of the Group (see Note 27). These loans had been repaid during the year ended 31 December 2022, and the guarantees from related parties had accordingly been released.

(ii) Other borrowings are non-interest bearing loans from local government, and are repayable by instalments from 2021 to 2023. These borrowings are recognised in the consolidated statements of financial position using the effective interest method.

(c) The analyses of the repayment schedules of long-term bank and other borrowings are as follows:

	At 31 December		
	2020 *RMB'000*	**2021** *RMB'000*	**2022** *RMB'000*
Within 1 year or on demand	10,000	20,000	36,600
After 1 year but within 2 years	20,000	186,600	–
After 2 years but within 5 years	36,600	–	–
	66,600	206,600	36,600

21 Lease liabilities

At the end of each reporting period, the lease liabilities are repayable as follows:

	At 31 December		
	2020 *RMB'000*	**2021** *RMB'000*	**2022** *RMB'000*
Within 1 year	14,897	25,340	28,024
After 1 year but within 2 years	7,313	15,183	15,570
After 2 years but within 5 years	13,786	21,892	19,475
After 5 years	8,533	6,647	2,119
	29,632	43,722	37,164
	44,529	69,062	65,188

22 Income tax in the consolidated statements of financial position

(a) Current taxation/(income tax recoverable) in the consolidated statements of financial position represent:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	237,035	404,199	442,222
Provision for the year (Note 7(a))	181,798	365,383	441,604
Income tax paid (Note (i))	(14,634)	(327,360)	(936,072)
At the end of the year	404,199	442,222	(52,246)
Representing:			
Income tax recoverable	–	–	(113,806)
Current taxation	404,199	442,222	61,560
	404,199	442,222	(52,246)

Note:

(i) Generally, the Group submits quarterly and annual tax filings based on unaudited management financial statements to the tax authorities under the various tax jurisdictions, and the Group will make quarterly and annual tax payments upon the tax authorities agreement of the unaudited management financial statements. These unaudited management financial statements are prepared in accordance with the same accounting policies as set out in this Historical Financial Information. The annual tax payments for each year are settled in the following year.

In 2022, tax authorities of certain tax jurisdictions have advised the Group that commencing from the calendar year of 2022, certain expense items, for example sales rebates, previously recognised by the Group based on accruals basis requires to be recognised on cash basis in the Group's quarterly tax filings, where an overall adjustment to accruals basis will only be allowed in the annual tax filing. Accordingly, the Group paid quarterly corporate income taxes on such basis under these tax jurisdictions, and hence an increase in quarterly income tax payments in 2022, which, coupled with the pace of the business growth of the Group, resulted in the increase in tax payments in 2022 and an income tax recoverable balance of RMB113,806,000. The Directors of the Company consider that such balance will be recovered upon the completion of the 2022 annual tax filing in 2023, which will include tax deductions of sales rebates and other expenses paid out in 2023 and were accrued as at 31 December 2022 (see Note 19).

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the Track Record Period are as follows:

	Assets			Liabilities	
	Unused tax losses *RMB'000*	**Credit loss allowance** *RMB'000*	**Sub-total** *RMB'000*	**Withholding tax in connection with distributions made by a subsidiary** *RMB'000*	**Total** *RMB'000*
Deferred tax assets arising from:					
At 1 January 2020	–	739	739	–	739
Credited to the consolidated statements of profit or loss (Note 7(a))	–	327	327	–	327
At 31 December 2020	–	1,066	1,066	–	1,066
Credited/(charged) to the consolidated statements of profit or loss (Note 7(a))	–	246	246	(11,199)	(10,953)
At 31 December 2021	–	1,312	1,312	(11,199)	(9,887)
Credited to the consolidated statements of profit or loss (Note 7(a))	35,461	930	36,391	–	36,391
At 31 December 2022	35,461	2,242	37,703	(11,199)	26,504

(c) Deferred tax liabilities not recognised

Except for deferred tax liabilities recognised in Note 22(b), taxable temporary differences relating to the undistributed profits of the Group's subsidiaries established in the PRC amounted to RMBNil, RMB95,275,000 and RMB1,174,928,000 as at 31 December 2020, 2021 and 2022, respectively, where deferred tax liabilities in respect of the PRC Withholding Tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

23 Financial instruments issued to an investor

The Group and the Company

	At 31 December	
	2021	**2022**
	RMB'000	*RMB'000*
Measured at fair value		
– Preference shares	8,327,504	10,253,755
– Warrants	429,378	–
	8,756,882	10,253,755

(a) Preference shares

On 13 November 2021, the Company entered into a series of agreements (the "Series A Agreements") with Zest Holdings II Pte. Ltd. (the "Series A Preferred Shareholder"). Pursuant to the Series A Agreements, the Series A Preferred Shareholder agreed to purchase an aggregate number of 3,402,805 preference shares (the "Series A Preference Shares") at a total consideration of USD300,000,000 (equivalent to approximately RMB1,919,400,000), which was fully paid in November 2021.

On 20 May 2022, the Company entered into another series of agreements (the "Second Series A Agreements") with the Series A Preferred Shareholder. Pursuant to the Second Series A Agreements, the Series A Preferred Shareholder agreed to purchase an aggregate number of 5,612,625 Series A Preference Shares at a total consideration of USD500,000,000 (equivalent to approximately RMB3,334,550,000), which was fully paid in June 2022.

Pursuant to the Series A Agreements and the Second Series A Agreements, the Group is required to fully or partially redeem the Series A 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.

Pursuant to the Series A Agreements and the Second Series A Agreements, the Series A Preferred Shareholder can convert the Series A Preference Shares into an equal number of ordinary shares in the Company at anytime during the life of the Series A Preference Shares. This conversion option is embedded in the Series A Preference Shares, and are recognised and remeasured at fair value, and presented as part of the carrying amounts of the Series A Preference Shares.

The movements of the financial liabilities arising from the Series A Preference Shares during the Track Record Period are set out below:

	At 31 December	
	2021	**2022**
	RMB'000	*RMB'000*
At 1 January	–	8,327,504
Issuance of the Series A Preference Shares	1,919,400	3,334,550
Remeasurement to fair value through equity upon issuance (Note (i))	6,437,232	(2,334,185)
Changes in fair value through profit or loss	–	107,396
Exchange adjustments	(29,128)	818,490
At 31 December	8,327,504	10,253,755

Note:

(i) During the Track Record Period, the Company issued the Series A Preference Shares to an investor. Pursuant to the prevailing accounting standards, the Company shall recognise financial liabilities arising from the issuance of the Series A Preference Shares at the highest possible obligations arising therefrom. The Company assessed that the highest possible outcome if its obligations would be the Company being obliged to distribute 30% of its distributable profits till the perpetuity. As the present value of perpetual cashflow of the future distribution of distributable profits represents the fair value of the Company's equity, the Company measure the financial liabilities arising from its obligations under the Series A Agreements and the Second Series A Agreements using 30% of fair value of its equity (Note 25(d)(i)). The differences between the considerations received from the issuance of the Series A Preference Shares and the fair value of the financial liabilities recognised at the date of issuance were adjusted in equity. Subsequent remeasurement of the financial liabilities at the end of the reporting period were recognised in profit or loss.

Based on the above and upon the issuance of the Series A Preference Shares in 2021, the financial liabilities was remeasured to 30% of fair value of the Company's equity at the date of issuance. The difference (approximately RMB6,437,232,000) between the consideration received (approximately RMB1,919,400,000) and 30% of fair value of the Company's equity was recognised in equity.

Upon issuance of the Series A Preference Shares in 2022, the fair value of the equity value of Company increased by RMB3,334,550,000 (representing the considerations received), of which 30% (representing the settlement that would be triggered by the event with the highest settlement outcome as stipulated in the Series A Agreements and the Second Series A Agreements) was allocated to fair values of the financial liabilities, where the remaining 70% being allocated to equity.

(b) Warrants

Pursuant to the Series A 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 the Second Series A Agreements.

The movements of the financial liabilities arising from the issuance of warrants during the Track Record Period are set out below:

	At 31 December	
	2021	2022
	RMB'000	*RMB'000*
At 1 January	–	429,378
Issuance of warrants	409,261	–
Changes in fair value through profit or loss	21,617	23,272
Termination of warrants	–	(472,173)
Exchange adjustments	(1,500)	19,523
At 31 December	429,378	–

24 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliations between the opening and closing balances of each component of the Group's equity during the Track Record Period are set out in the consolidated statements of changes in equity.

Details of the changes of the Company's individual components of equity are set out below:

	Share capital	Share premium	Capital reserve	Exchange reserve	Accumulated losses	Total equity-deficit
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 24(b))	*(Note 24(c))*	*(Note 24(d))*	*(Note 24(e))*		
At 24 September 2021 (date of incorporation)	–	–	–	–	–	–
Changes in equity for the year ended 31 December 2021:						
Profit and total comprehensive income for the year	–	–	–	23,663	74,397	98,060
Issuance of ordinary shares (Note 24(b))	30	11,753	–	–	–	11,783
Remeasurement of preference shares to fair value upon issuance (Note 23(a))	–	–	(6,437,232)	–	–	(6,437,232)
Issuance of warrants (Note 23(b))	–	–	(409,261)	–	–	(409,261)
Dividends declared (Note 24(f))	–	–	–	–	(99,090)	(99,090)

	Share capital RMB'000 (Note 24(b))	Share premium RMB'000 (Note 24(c))	Capital reserve RMB'000 (Note 24(d))	Exchange reserve RMB'000 (Note 24(e))	Accumulated losses RMB'000	Total equity-deficit RMB'000
At 31 December 2021 and 1 January 2022	30	11,753	(6,846,493)	23,663	(24,693)	(6,835,740)
Changes in equity for the year ended 31 December 2022:						
Loss and total comprehensive income for the year	–	–	–	(513,507)	(147,801)	(661,308)
Remeasurement of preference shares to fair value upon issuance (Note 23(a))	–	–	2,334,185	–	–	2,334,185
Termination of warrants (Note 23(b))	–	–	472,173	–	–	472,173
At 31 December 2022	30	11,753	(4,040,135)	(489,844)	(172,494)	(4,690,690)

(b) Share capital

The share capital as at 31 December 2021 and 2022 represented the issued share capital of the Company, comprising 46,597,195 shares at USD0.0001 each.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 24 September 2021. The initial authorised share capital was USD50,000 divided into 50,000 shares with a par value of USD1 each. On 25 November 2021, the authorised share capital has been revised to USD50,000 and divided into 500,000,000 shares of USD0.0001 par value each.

Upon incorporation of the Company and on 4 November 2021, 1 and 96 shares in the Company were allotted and issued, credited as fully paid, to Zhenjiu Holding Limited ("Zhenjiu Holding"), a company with limited liability incorporated and wholly owned by the Controlling Shareholder, at par value, respectively. As a result of a share division took place on 25 November 2021, the 97 shares issued to Zhenjiu Holding were divided into 970,000 shares. On 25 November 2021, additional 44,229,280 shares were allotted and issued, credited as fully paid, to Zhenjiu Holding at par value.

On 25 November 2021, an investor agreed to subscribe for 1,397,915 shares in the Company at a consideration of RMB11,754,000, where RMB1,000 and RMB11,753,000 were credited to the share capital and share premium account, respectively.

(c) Share premium

The application of the share premium account is governed by Section 34 of the Companies Act (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

(d) Capital reserve

The Group's capital reserve at 1 January 2020, 31 December 2020 and 1 January 2021 represented the paid-in capital and capital reserve of the Zhenjiu Group prior to the Reorganisation underwent by the Group.

Upon the completion of the Reorganisation, the Company became the holding company of the companies now comprising the Group and accordingly, the paid-in capital and capital reserve of the Zhenjiu Group were eliminated when preparing the Historical Financial Information. A total consideration of RMB527,053,000 was paid under the Reorganisation and adjusted against capital reserve.

As mentioned in Note 23, the issuance and recognition of financial liabilities of the Series A Preference Shares, and the issuance and termination of warrants were adjusted through capital reserve.

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2(s).

(f) Distributions/dividends

During the Track Record Period, the Group made the following distributions/dividends to its equity holders/shareholders:

	Years ended 31 December		
	2020 *RMB'000*	**2021** *RMB'000*	**2022** *RMB'000*
Distributions made by the Zhenjiu Group	–	1,787,000	–
Dividends declared by the Company	–	99,090	–
	–	1,886,090	–

In 2021, the Zhenjiu Group made distributions amounted to RMB1,787,000,000 to the then equity holders, of which RMB1,750,354,000 were used to off set the amounts due from related parties (see Notes 16 and 17(b)).

In November 2021, the Company declared dividends of HKD120,700,000 (equivalent to approximately RMB99,090,000).

The directors of the Company consider that the distributions made and the dividends declared during the Track Record Period are not indicative of the future dividend policy of the Group.

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practises used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The directors of the Company are of the opinion that the Group's exposure to credit risks arising from cash and cash equivalents and bills receivables is limited because the counterparties are banks with good credit standing, for which the Group considers to have low credit risk. The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over their respective approved credit limits. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer. Trade receivables are usually due within 30 days from the date of billing, where credit periods of one month to one year are granted to certain large customers. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2020, 2021 and 2022, 47%, 46% and 5% of the total trade receivables was due from the Group's largest debtor, respectively, and 62%, 61% and 12% of the total trade receivables, respectively, were due from the Group's five largest debtors.

The Group measures loss allowance for trade receivables at an amount equal to lifetime ECLs, which is calculated by collective assessment using a provision matrix. As the Group's historical credit loss experience indicate no significantly different loss patterns for different types of customer, the loss allowance based on past due status is not distinguished among the Group's different customer types.

The following tables provide information about the Group's exposure to credit risk and ECLs for trade receivables:

	At 31 December 2020		
	Expected loss rate *%*	**Gross carrying amount** *RMB'000*	**Loss allowance** *RMB'000*
Less than 3 months	0.5%	38,085	187
More than 3 months but less than 6 months	7.2%	12,027	864
More than 6 months but less than 12 months	10.9%	4,173	454
More than 12 months	78.3%	3,524	2,759
		57,809	4,264

	At 31 December 2021		
	Expected loss rate *%*	**Gross carrying amount** *RMB'000*	**Loss allowance** *RMB'000*
Less than 3 months	1.3%	46,405	620
More than 3 months but less than 6 months	3.9%	4,399	171
More than 6 months but less than 12 months	8.4%	4,539	382
More than 12 months	65.7%	6,204	4,073
		61,547	5,246

	At 31 December 2022		
	Expected loss rate *%*	**Gross carrying amount** *RMB'000*	**Loss allowance** *RMB'000*
Less than 3 months	0.9%	98,453	923
More than 3 months but less than 6 months	6.7%	10,948	729
More than 6 months but less than 12 months	8.0%	11,780	943
More than 12 months	100.0%	6,371	6,371
		127,552	8,966

Expected loss rates are based on actual loss experience over the recent past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movements in the loss allowance account in respect of trade receivables during the Track Record Period are as follows:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January	2,956	4,264	5,246
Impairment loss recognised during the year	1,308	982	3,720
Balance at 31 December	4,264	5,246	8,966

(b) Liquidity risk

The treasury function is centrally managed by the Group, which includes the short-term investment of cash surpluses and the raising of funds to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's derivative and non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of each reporting period) and the earliest dates the Group can be required to pay.

	At 31 December 2020					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	**Over 1 year but within 2 years**	**Over 2 years but within 5 years**	**Over 5 years**	**Total**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	144,661	–	–	–	144,661	144,661
Other payables and accruals measured at amortised cost	1,047,514	–	–	–	1,047,514	1,047,514
Bank and other borrowings	919,200	20,000	36,600	–	975,800	952,100
Lease liabilities	15,102	7,862	16,341	11,499	50,804	44,529
	2,126,477	27,862	52,941	11,499	2,218,779	2,188,804

	At 31 December 2021					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand *RMB'000*	**Over 1 year but within 2 years** *RMB'000*	**Over 2 years but within 5 years** *RMB'000*	**Over 5 years** *RMB'000*	**Total** *RMB'000*	**Carrying amount** *RMB'000*
Trade payables	550,649	–	–	–	550,649	550,649
Other payables and accruals measured at amortised cost	1,716,365	–	–	–	1,716,365	1,716,365
Amounts due to related parties	198,135	–	–	–	198,135	198,135
Bank and other borrowings	731,751	187,875	–	–	919,626	896,600
Lease liabilities	25,886	16,352	25,540	8,825	76,603	69,062
Financial instruments issued to an investor	1,925,549	–	–	–	1,925,549	8,756,882
	5,148,335	204,227	25,540	8,825	5,386,927	12,187,693

	At 31 December 2022					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand *RMB'000*	**Over 1 year but within 2 years** *RMB'000*	**Over 2 years but within 5 years** *RMB'000*	**Over 5 years** *RMB'000*	**Total** *RMB'000*	**Carrying amount** *RMB'000*
Trade payables	1,045,530	–	–	–	1,045,530	1,045,530
Other payables and accruals measured at amortised cost	1,609,000	–	–	–	1,609,000	1,609,000
Bank and other borrowings	36,600	–	–	–	36,600	36,600
Lease liabilities	28,612	16,704	22,994	2,782	71,092	65,188
Financial instruments issued to an investor	5,797,810	–	–	–	5,797,810	10,253,755
	8,517,552	16,704	22,994	2,782	8,560,032	13,010,073

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively.

(i) Interest rate profile

The following tables detail the interest rate profile of the Group's bank and other borrowings at the end of each reporting period:

	At 31 December 2020		At 31 December 2021		At 31 December 2022	
	Effective interest rate %	*RMB'000*	Effective interest rate %	*RMB'000*	Effective interest rate %	*RMB'000*
Fixed rate borrowings:						
– Bank and other borrowings	2.85% – 4.75%	726,600	3.70% – 4.75%	596,600	4.75%	36,600
– Lease liabilities	4.75% – 4.90%	44,529	4.75% – 4.90%	69,062	4.75% – 4.90%	65,188
		771,129		665,662		101,788
Variable rate borrowings:						
– Bank borrowings	4.18%	225,500	4.15%	300,000		–
Total borrowings		996,629		965,662		101,788

(ii) Sensitivity analyses

At 31 December 2020, 2021 and 2022, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB1,691,000, RMB2,250,000 and RMBNil, respectively.

The sensitivity analyses above indicate the instantaneous change in the Group's profit after tax and retained profits on the Group's exposure to cash flow interest rate risk from variable rates non-derivative instruments that would arise assuming that the change in interest rates had occurred at the end of each reporting period. The impact is estimated as an annualised impact on interest exposure of such a change in interest rates. The sensitivity analyses are performed on the same basis during the Track Record Period.

(d) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following tables present the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value measurements at 31 December 2021 categorised into Level 3 *RMB'000*	**Fair value measurements at 31 December 2022 categorised into Level 3** *RMB'000*
Recurring fair value measurement		
Financial liabilities:		
– Preference shares	8,327,504	10,253,755
– Warrants	429,378	–
	8,756,882	10,253,755

The Group engaged an independent valuer to perform valuations for financial instruments categorised into Level 3 of the fair value hierarchy.

During the Track Record Period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

Series A Preference Shares

The fair values of the financial liabilities arising from preference shares are determined using the equity allocation model. As at 31 December 2021 and 2022, key assumptions used are set out below:

	At 31 December	
	2021	**2022**
Risk free interest rate	1.32%	2.97%
Expected volatility	42.10%	44.62%

As at 31 December 2021 and 2022, if all other variables are held constant, an(a) increase/decrease in the risk free interest rate by 0.1% would have a(an) (decrease)/increase impact on the Group's profit after tax as below:

	At 31 December	
	2021	**2022**
	RMB'000	*RMB'000*
Risk free interest rate increased by 0.1%	(630,000)	(526,000)
Risk free interest rate decreased by 0.1%	635,000	529,000

As at 31 December 2021 and 2022, if all other variables are held constant, an(a) increase/decrease in the excepted volatility by 1% would have an(a) increase/(decrease) impact on the Group's profit after tax as below:

	At 31 December	
	2021	**2022**
	RMB'000	*RMB'000*
Expected volatility increased by 1%	919,000	510,000
Expected volatility decreased by 1%	(947,000)	(558,000)

Warrants

The fair values of the financial liabilities arising from warrants are determined using the binomial lattice model. As at 31 December 2021, key assumptions used are set out below:

	At 31 December
	2021
Risk free interest rate	0.88%
Expected volatility	47.49%

As at 31 December 2021, if all other variables are held constant, an(a) increase/decrease in the risk free interest rate by 0.1% would have a(an) (decrease)/increase impact on the Group's profit after tax as below:

	At 31 December 2021 *RMB'000*
Risk free interest rate increased by 0.1%	(1,239)
Risk free interest rate decreased by 0.1%	1,236

As at 31 December 2021, if all other variables are held constant, an(a) increase/decrease in the excepted volatility by 1% would have a(an) (decrease)/increase impact on the Group's profit after tax as below:

	At 31 December 2021 *RMB'000*
Excepted volatility increased by 1%	(9,557)
Excepted volatility decreased by 1%	9,580

(ii) Fair value of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2020, 2021 and 2022.

26 Commitments

Commitments outstanding at 31 December 2020, 2021 and 2022 not provided for in the Historical Financial Information were as follows:

	At 31 December		
	2020 *RMB'000*	**2021** *RMB'000*	**2022** *RMB'000*
Commitments in respect of purchase of property, plant and equipment			
- contracted for	1,020,965	550,880	867,473
- authorised but not contracted for	109,856	118,983	96,432
	1,130,821	669,863	963,905

27 Material related party transactions and balances

(a) Names and relationships of the related parties that had material transactions with the Group during the Track Record Period and balances with the Group at the end of each reporting period

Name of related parties	Relationship
Zhenjiu Holding	Immediate holding company of the Company
Charm Cultural Tourism Development Co., Ltd. ("Charm Cultural Tourism") 魅力文旅發展有限公司 (Note (i))	A company controlled by the Controlling Shareholder
Guilin Xiangshan Liquor Industry Co., Ltd. ("Guilin Xiangshan") 桂林湘山酒業有限公司 (Note (i))	A company controlled by the Controlling Shareholder
Huaze Liquor Sales Co., Ltd. ("Huaze Liquor") 華澤酒業銷售有限公司 (Note (i))	A company controlled by the Controlling Shareholder (disposed of on 17 December 2021)
Huaze Group 華澤集團有限公司 (Note (i))	A company controlled by the Controlling Shareholder
Jindong Group (formerly "Hunan Jinliufu Liquor Industry Co., Ltd.") 湖南金東酒業有限公司（前稱"湖南省金六福酒業有限公司"）(Note (i))	A company controlled by the Controlling Shareholder
Shaoyang Huaze Real Estate Co., Ltd. ("Shaoyang Huaze") 邵陽華澤房地產開發有限公司 (Note (i))	A company controlled by the Controlling Shareholder
Sichuan Qionglai Jinliufu Cliff Valley Ecological Brewing Co., Ltd. ("Qionglai Jinliufu") 四川邛崍金六福崖谷生態釀酒有限公司 (Note (i))	A company controlled by the Controlling Shareholder
Xiangtan Huapeng Packaging Co., Ltd. ("Xiangtan Huapeng") 湘潭華鵬包裝有限公司 (Note (i))	A company controlled by the Controlling Shareholder (disposed of on 19 September 2022)
Liling Turandot Hotel ("Turandot Hotel") 醴陵圖蘭朵酒店 (Note (i))	A company controlled by the Controlling Shareholder
Jindong Capital (HK) Limited ("Jindong Capital")	A company controlled by the Controlling Shareholder
Guizhou Huashi Packaging Technology Co., Ltd. ("Guizhou Huashi") 貴州華世包裝科技有限公司 (Note (i))	An associate of a company controlled by the Controlling Shareholder (disposed of on 19 September 2022)

Name of related parties	**Relationship**
Diqing Shangri-La Economic Development Zone Tianlai Liquor Industry Co., Ltd. ("Diqing Shangri-La Tianlai") 迪慶香格里拉經濟開發區天籟酒業有限公司 (Note (i))	A company controlled by a close family member of the Controlling Shareholder

Note:

(i) The official names of these entities are in Chinese. The English translations are for identification only.

(b) Transactions with related parties during the Track Record Period

	Years ended 31 December		
	2020 *RMB'000*	**2021** *RMB'000*	**2022** *RMB'000*
Sales of baijiu products			
Huaze Liquor	336	104,293	–
Diqing Shangri-La Tianlai	6,388	11,998	–
Charm Cultural Tourism	999	1,143	1,230
Turandot Hotel	255	404	51
	7,978	117,838	1,281
Purchase of raw materials			
Xiangtan Huapeng	17,745	28,111	21,867
Qionglai Jinliufu	–	3,490	2,187
Guilin Xiangshan	–	504	698
Guizhou Huashi	20,017	89,040	52,140
	37,762	121,145	76,892
Hospitality services received			
Turandot Hotel	6	537	2,191
Leases of premises			
Huaze Group	574	574	574
Shaoyang Huaze	283	283	283
	857	857	857

	Years ended 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Salaries of the Group's employees borne and paid by a related party			
Huaze Group	10,892	9,262	–
Net outflow to/(inflow from) related parties (non-trade in nature)			
Huaze Group	1,030,960	(1,854,999)	190,000
Jindong Capital	–	(8,135)	8,135
	1,030,960	(1,863,134)	198,135

	At 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Guarantees provided by Jindong Group and Huaze Group on the Group's bank borrowings at the end of the reporting period (Note 20)	885,500	840,000	–

The directors of the Company expect the above transactions in the form of (i) sales of baijiu products; (ii) purchase of raw materials; and (iii) leases of premises, to be continued after the listing of the Company's shares on the Stock Exchange.

(c) Balances with related parties at the end of the reporting period

	At 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Trade in nature:			
Included in trade payables			
Xiangtan Huapeng	5,992	3,643	–
Qionglai Jinliufu	–	16	444
Guizhou Huashi	3,263	6,116	–
	9,255	9,775	444

	At 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Receipts in advance included in other payables and accruals			
Huaze Liquor	597	–	–
Diqing Shangri-La Tianlai	5,779	338	15
Charm Cultural Tourism	186	3,643	11
Turandot Hotel	17	39	–
	6,579	4,020	26
Non-trade in nature:			
Amounts due from related parties			
Huaze Group	1,664,999	–	–
Amounts due to related parties			
Huaze Group	–	190,000	–
Jindong Capital	–	8,135	–
	–	198,135	–

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employee of the Group as disclosed in Note 9 during the Track Record Period, is as follows:

	Years ended 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits	12,118	13,375	20,728
Contributions to defined contribution retirement plans	92	116	226
	12,210	13,491	20,954

During the years ended 31 December 2020, 2021 and 2022 and prior to the completion of the Reorganisation, remuneration of RMB10,892,000, RMB9,262,000 and RMBNil, respectively, for key management personnel was paid and borne by a related party. These amounts are shown in the above tables for information only.

Except for remuneration borne by a related party mentioned above, total remuneration is included in "staff costs" in Note 6(b).

28 Immediate and ultimate controlling party

The directors of the Company consider the immediate holding company of the Company at 31 December 2022 to be Zhenjiu Holding, and the ultimate controlling party to be Mr Wu Xiangdong.

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2022

Up to the date of issue of the Historical Financial Information, the IASB has issued a number of new or amended standards which are not yet effective for the accounting period beginning on 1 January 2022 and which have not been adopted in the Historical Financial Information.

	Effective for accounting periods beginning on or after
IFRS 17, *Insurance Contracts*, and amendments to IFRS 17, *Insurance Contracts*	1 January 2023
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2023
Amendments to IAS 1 and IFRS Practise Statement 2, *Disclosure of Accounting Policies*	1 January 2023
Amendments to IAS 8, *Definition of Accounting Estimates*	1 January 2023
Amendments to IAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be decided

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's consolidated financial statements.

30 Subsequent events

There was no material non-adjusting event after reporting period up to the date of this report.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries comprising the Group in respect of any period subsequent to 31 December 2022.

The following information set forth in this Appendix does not form part of the Accountants' Report from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible liabilities attributable to equity shareholders of the Company as of 31 December 2022 as if the Global Offering had taken place on 31 December 2022.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of 31 December 2022 or at any future date.

	Consolidated net tangible liabilities attributable to equity shareholders of the Company as of 31 December 2022	Estimated net proceeds from the Global Offering	Estimated impact upon reclassification of the preference shares	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB*	*HKD*
	Note (1)	*Note (2)*	*Note (3)*		*Note (4)*	*Note (5)*
Based on an Offer Price of HK$10.78 per Share	(3,815,214)	4,436,188	10,253,755	10,874,729	3.32	3.79
Based on an Offer Price of HK$ 12.98 per Share	(3,815,214)	5,349,654	10,253,755	11,788,195	3.60	4.11

Notes:

(1) The consolidated net tangible liabilities attributable to equity shareholders of the Company as at 31 December 2022 is calculated based on the consolidated net liabilities attributable to equity shareholders of the Company as at 31 December 2022 of RMB3,815,214,000, as shown in the Accountants' Report as set out in Appendix I in this prospectus.

(2) The estimated net proceeds from the Global Offering are based on the expected issuance of 490,699,800 Shares and the indicative Offer Prices of HK$10.78 per Share (being the minimum Offer Price) and HK$12.98 per Share (being the maximum Offer Price), after deduction of the estimated underwriting fees and other estimated expenses related to the Global offering paid or payable by the Group (excluding the listing expense that have been charged to profit or loss during the Track Record Period), and do not take into account of any shares which may be issued upon the exercise of the Over-allotment Option.

For illustrative purpose, the estimated net proceeds of the Global Offering have been converted to Renminbi at an exchange rate of HK$1 to RMB0.8769 published by PBOC prevailing on 7 April 2023. No representation is made that Hong Kong dollars amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rate.

(3) As at 31 December 2022, the carrying amount of financial instruments issued to an investor, which represented the Series A Preference Shares issued, was RMB10,253,755,000 (as set out in Note 23 of Appendix I). Upon Listing, the preference shares will be automatically converted into ordinary shares and will be reclassified from liabilities to equity.

(4) The unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 3,271,331,050 Shares were in issue assuming that the Global Offering and conversation of preference shares into ordinary shares had been completed on 31 December 2022, but do not take into account of any shares which may be issued upon the exercise of the Over-allotment Option.

(5) The unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company per Share amounts in RMB are converted to Hong Kong dollars with an exchange rate of RMB1 to HK$1.1403 published by PBOC prevailing on 7 April 2023. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rate.

(6) No adjustment has been made to the unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company to reflect any trading results or other transactions of the Group subsequent to 31 December 2022.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of ZJLD Group Inc

We have completed our assurance engagement to report on the compilation of pro forma financial information of ZJLD Group Inc (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 31 December 2022 and related notes as set out in Part A of Appendix II to the prospectus dated 17 April 2023 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Group's financial position as at 31 December 2022 as if the Global Offering had taken place at 31 December 2022. As part of this process, information about the Group's financial position as at 31 December 2022 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 31 December 2022 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong

17 April 2023

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on September 24, 2021 under the Companies Act (As Revised) of the Cayman Islands (the "**Companies Act**"). The Company's constitutional documents consist of its fourth amended and restated memorandum of association (the "**Memorandum**") and its fourth amended and restated articles of association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Act and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on April 11, 2023 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (including at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) **Alteration of capital**

The Company may by ordinary resolution of its members:

(i) increase its share capital by the creation of new shares;

(ii) consolidate all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so canceled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Act in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognize any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year. The period of thirty (30) days may be extended for a further period or periods not exceeding thirty (30) days in respect of any year if approved by members by ordinary resolution.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favor of the Company.

(v) **Power of the Company to purchase its own shares**

The Company is empowered by the Companies Act and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

The board may accept the surrender for no consideration of any fully paid share.

(vi) **Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) **Calls on shares and forfeiture of shares**

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) **Directors**

(i) **Appointment, retirement and removal**

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the first annual general meeting of the Company after this appointment and shall then be eligible for re-election.

A Director (including a managing and other executive Director) may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

(aa) he resigns by notice in writing delivered to the Company;

(bb) he becomes of unsound mind or dies;

(cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) he is prohibited from being a director by law; or

(ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) **Power to allot and issue shares and warrants**

Subject to the provisions of the Companies Act and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued

(a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Act and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) **Power to dispose of the assets of the Company or any of its subsidiaries**

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Act to be exercised or done by the Company in general meeting.

(iv) **Borrowing powers**

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) **Remuneration**

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalize all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) **Compensation or payments for loss of office**

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) **Loans and provision of security for loans to Directors**

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) **Disclosure of interests in contracts with the Company or any of its subsidiaries**

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

(aa) the giving of any security or indemnity either:-

(aaa) to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or

(bbb) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(bb) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(cc) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:-

(aaa) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or

(bbb) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to the Directors, his close associate(s) and employee(s) of the Company or any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(c) **Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) **Alterations to constitutional documents and the Company's name**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) **Meetings of members**

(i) **Special and ordinary resolutions**

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) **Voting rights and right to demand a poll**

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. Votes (whether on a show of hands or by way of poll) may be cast by such means, electronic or otherwise, as the Directors or the chairman of the meeting may determine.

Any corporation which is a member may by resolution of its directors or other governing body authorize such person as it thinks fit to act as its representative at any general meeting of the Company or at any meeting of any class of members.

The person so authorized shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member and such corporation shall for the purposes of the Articles be deemed to be present in person at any such meeting if a person so authorized is present thereat.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

All members have the right to speak and vote at a general meeting except where a member is required, by the rules of the Stock Exchange, to abstain from voting to approve the matter under consideration.

Where the Company has any knowledge that any member is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) **Annual general meetings and extraordinary general meetings**

The Company must hold an annual general meeting of the Company for each financial year and such general meeting must be held within six (6) months after the end of the Company's financial year unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings on a one vote per share basis. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

Notwithstanding any provisions in the Articles, any general meeting or any class meeting may be held by means of such telephone, electronic or other communication facilities as to permit all persons participating in the meeting to communicate with each other, and participation in such a meeting shall constitute presence at such meeting.

(iv) **Notices of meetings and business to be conducted**

An annual general meeting must be called by notice of not less than twenty-one (21) clear days. All other general meetings must be called by notice of at least fourteen (14) clear days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers; and

(ee) the fixing of the remuneration of the directors and of the auditors.

(v) **Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy or, for quorum purposes only, two persons appointed by the clearing house as authorized representative or proxy, and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) **Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(f) **Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall by ordinary resolution appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed and approved by the Company by an ordinary resolution passed at a general meeting or in such manner as the members may by ordinary resolution determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) **Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or Unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by check or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such check or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the check or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) **Inspection of corporate records**

Pursuant to the Articles, the register and branch register of members maintained in Hong Kong shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Act or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) **Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(j) **Procedures on liquidation**

When otherwise provided by the Companies Act, a resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) **Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Act and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancelation of shares in any other company and issued at a premium.

The Companies Act provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

(c) **Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) **Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Act expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as canceled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not to be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Act.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) **Dividends and distributions**

The Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) **Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) **Disposal of assets**

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) **Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(i) **Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) **Taxation**

Pursuant to the Tax Concessions Act of the Cayman Islands, the Company has obtained an undertaking:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from November 25, 2021.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) **Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) **Loans to directors**

There is no express provision in the Companies Act prohibiting the making of loans by a company to any of its directors.

(m) **Inspection of corporate records**

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) **Register of members**

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Act. A branch register must be kept in the same manner in which a principal register is by the Companies Act required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(o) **Register of Directors and Officers**

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) **Beneficial Ownership Register**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) **Winding up**

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorizing civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorized by the company's articles of association and published in the Gazette.

(r) **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by (i) a majority in number representing seventy-five per cent. (75%) in value of creditors, or (ii) seventy-five per cent. (75%) in value of shareholders or class of shareholders, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

The Companies Act also contains statutory provisions which provide that a company may present a petition to the Court for the appointment of a restructuring officer on the grounds that the company (a) is or is likely to become unable to pay its debts within the meaning of section 93 of the Companies Act; and (b) intends to present a compromise or arrangement to its creditors (or classes thereof) either, pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring. The petition may be presented by a company acting by its directors, without a resolution of its shareholders or an express power in its articles of association. On hearing such a petition, the Court may, among other things, make an order appointing a restructuring officer or make any other order as the Court thinks fit.

(s) **Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) **Economic Substance Requirements**

Pursuant to the International Tax Cooperation (Economic Substance) Act of the Cayman Islands ("ES Act") that came into force on January 1, 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Act. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Act.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available on display" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

1. Incorporation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Act on September 24, 2021. Our registered office address is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. As our Company is incorporated in the Cayman Islands, our operation is subject to the relevant laws and regulations of the Cayman Islands, the Articles and the Memorandum. A summary of the relevant laws and regulations of the Cayman Islands and of our constitution is set out in "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix III.

Our registered place of business in Hong Kong is at Room 1504, Berkshire House, 25 Westlands Road, Taikoo Place, Quarry Bay, East District, Hong Kong Island, Hong Kong. We have registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on December 28, 2021 with the Registrar of Companies in Hong Kong. Mr. NG Kwong Chue Paul (吳光曙), our executive Director and company secretary, has been appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process in Hong Kong is the same as our principal place of business in Hong Kong as set out above in this prospectus.

As of the date of this prospectus, our Company's head office is located at 8th Floor, Jiahe Guoxin Building, No.15, Baiqiao Avenue, Dongcheng District, Beijing, People's Republic of China.

2. Changes in Share Capital of Our Company

Save as disclosed in "History, Development and Corporate Structure", there has been no alternation in our share capital within two years immediately preceding the date of this prospectus.

3. Changes in Share Capital of Our Subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in Note 1 to the Accountants' Report as set out in Appendix I to this prospectus.

The following sets out the changes in the share capital of our subsidiaries during the two years immediately preceding the date of this prospectus:

On December 8, 2021, the registered capital of Guizhou Zhenjiu was increased from RMB320 million to RMB700 million.

On December 13, 2021, the registered capital of Guizhou Zhenjiu was increased from RMB700 million to RMB1,500 million.

On December 16, 2021, the registered capital of Zhenjiu Brewing was increased from RMB309,278,351 to RMB1.5 billion.

On August 25, 2021, the registered capital of Hunan Xiangjiao Sales was increased from RMB1 million to RMB5 million.

Save as disclosed above and in the section headed "History, Development and Corporate Structure", there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. Written Resolutions Passed by Our Shareholders on April 11, 2023

Written resolutions of our Shareholders were passed on April 11, 2023 pursuant to which, among others:

(a) conditional upon (1) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as stated in this prospectus and such listing and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange; (2) the Offer Price having been determined; and (3) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

(i) each issued and unissued ordinary share in the then authorized share capital of the Company with a par value of US$0.0001 be subdivided into 50 Shares with a par value of US$0.000002 and each issued and unissued Series A Preferred Share in the then authorized share capital of the Company with a par value of US$0.0001 be subdivided into 50 Series A Preferred Shares with a par value of US$0.000002;

(ii) immediately prior to the completion of the Global Offering, each of the issued Series A Preferred Share of US$0.000002 be converted into one Share of US$0.000002 each by redesignation and re-classification of each Preferred Share in issue as a Share on a one-for-one basis, such that the authorized share capital of the Company is US$50,000 divided into 25,000,000,000 Shares with a par value of US$0.000002 each, with effect from the Listing Date;

(iii) the Global Offering (including the Over-allotment Option) were approved, and the proposed allotment and issue of the Offer Shares under the Global Offering were approved, and the Board was authorized to determine the Offer Price for, and to allot and issue the Offer Shares;

(iv) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, otherwise than by way of the Global Offering, rights issue or pursuant to the exercise of any subscription rights attaching to any warrants which may be allotted and issued by the Company from time to time or, pursuant to the exercise of any options which may be granted under the Share Incentive Plan or allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association on a specific authority granted by our Shareholders in general meeting, shall not exceed 20% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering, excluding any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option;

(v) a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering, excluding any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option;

(vi) the general unconditional mandate as mentioned in paragraph (iii) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to purchase Shares referred to in paragraph (v) above up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering, excluding any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option; and

(vii) the acknowledgement by all the Preferred Shareholders of the agreed conversion number as applicable and the resolution not to exercise the right to further adjustment of conversion ratio;

(b) our Company conditionally approved and adopted the Memorandum and Articles with effect from the Listing; and

(c) our Company conditionally approved and adopted the Post-IPO Equity Incentive Plan with effect from the Listing.

Each of the general mandates referred to in paragraphs (a)(iv), (a)(v) and (a)(vi) above will remain in effect until whichever is the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of the Shareholders in general meeting either unconditionally or subject to condition;
- the expiration of the period within which the next annual general meeting of our Company is required to be held under the applicable laws of the Cayman Islands or the Articles of Association; or
- when revoked or varied by an ordinary resolution of the Shareholders in a general meeting of our Company.

5. Repurchase of Our Own Securities

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our own securities.

(a) Provision of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) Shareholders' Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on April 11, 2023, the Repurchase Mandate was given to our Directors authorizing them to exercise all powers of our Company to repurchase Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, with a total nominal value up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued under the Over-allotment Option), with such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company (unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions), (ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held, and (iii) the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

(ii) Source of Funds

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. As a matter of Cayman Islands law, any purchases by the Company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Companies Act. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Companies Act.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue.

A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of Repurchased Shares

The listing of all purchased securities (whether on the Stock Exchange or otherwise) is automatically canceled and the relative certificates must be canceled and destroyed. Under the laws of the Cayman Islands, unless, prior to the purchase the Directors resolve to hold the shares purchased by our Company as treasury shares, shares purchased by our Company shall be treated as canceled and the amount of our Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorized share capital under Cayman Islands law.

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Core Connected Persons

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell his securities to the company.

(b) Reasons for Repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

(c) Funding of Repurchases

Repurchase of the Shares must be funded out of funds legally available for such purpose in accordance with the Articles and the applicable laws of the Cayman Islands. Our Directors may not repurchase the Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, our Directors may make repurchases with profits of the Company or out of a new issuance of shares made for the purpose of the repurchase or, if authorized by the Articles of Association and subject to the Cayman Companies Act, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorized by the Articles of Association and subject to Cayman Companies Act, out of capital.

However, our Directors do not propose to exercise the general mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) General

The exercise in full of the Repurchase Mandate, on the basis of 3,271,331,050 Shares in issue immediately following the completion of the Global Offering, but assuming the Over-allotment Option is not exercised, could accordingly result in up to approximately 327,133,105 Shares being repurchased by our Company during the period prior to the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;

- the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 15% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be granted other than in exceptional circumstances.

No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) which are or may be material were entered into by members of our Group within the two years preceding the date of this prospectus:

(a) the shareholders agreement dated November 13, 2021 entered into among our Company, Mr. Wu, Zhenjiu Holding, ChinaNet, Zest Holdings, Guizhou Zhenjiu, Zhenjiu Brewing, Hunan Xiangjiao and Jiangxi Lidu, pursuant to which certain shareholder rights were agreed among the parties;

(b) the amended and restated shareholders agreement dated May 20, 2022 entered into among our Company, Mr. Wu, Zhenjiu Holding, ChinaNet, Zest Holdings, Guizhou Zhenjiu, Zhenjiu Brewing, Hunan Xiangjiao and Jiangxi Lidu, pursuant to which certain shareholder rights were agreed among the parties;

(c) the Deed of Non-competition; and

(d) the Hong Kong Underwriting Agreement.

2. Our Intellectual Property Rights

(a) Trademarks

As of the Latest Practicable Date, we are the owner of the following material registered trademarks, details of which are as follows:

No.	Trademark	Registered Owner	Place of Registration	Expiration Date (dd/mm/yyyy)
1	封珍坛酒	Zhenjiu Brewing	PRC	13/11/2025
2	老珍酒	Zhenjiu Brewing	PRC	27/2/2030
3	珍	Zhenjiu Brewing	PRC	13/2/2032
4	珍酒	Zhenjiu Brewing	PRC	13/7/2031
5	珍 ZHENJIU	Zhenjiu Brewing	PRC	27/3/2033
6	珍酒佳品	Zhenjiu Brewing	PRC	6/12/2030
7	珍酒酒中珍品	Zhenjiu Brewing	PRC	6/5/2031
8	珍酒体验馆	Zhenjiu Brewing	PRC	13/11/2030
9	珍酒珍八	Zhenjiu Brewing	PRC	27/10/2027
10	珍酒珍三十	Zhenjiu Brewing	PRC	6/5/2030
11	珍酒珍十五	Zhenjiu Brewing	PRC	27/12/2030
12	珍酒映山红	Zhenjiu Brewing	PRC	6/6/2032
13	石子铺	Zhenjiu Brewing	PRC	13/4/2032
14	珍酒庄园	Zhenjiu Brewing	PRC	6/3/2032

No.	Trademark	Registered Owner	Place of Registration	Expiration Date (dd/mm/yyyy)
15	珍酒 ZHEN	Zhenjiu Brewing	PRC	20/2/2032
16	KWEICHOW ZHEN	Zhenjiu Brewing	PRC	27/12/2031
17	珍	Zhenjiu Brewing	PRC	6/12/2031
18	要情	Hunan Xiangjiao	PRC	13/11/2027
19	湘窖	Hunan Xiangjiao	PRC	13/2/2028
20	湘窖红钻	Hunan Xiangjiao	PRC	27/2/2030
21	湘窖水晶	Hunan Xiangjiao	PRC	6/7/2029
22	开口笑福酱酒	Hunan Xiangjiao	PRC	6/2/2031
23	开口笑	Hunan Xiangjiao	PRC	27/10/2030
24	湘窖龙匠明月	Hunan Xiangjiao	PRC	20/4/2031
25	湘窖龙匠天和	Hunan Xiangjiao	PRC	20/4/2031
26	湘窖龙匠人和	Hunan Xiangjiao	PRC	20/4/2031
27	湘窖龙匠地和	Hunan Xiangjiao	PRC	27/4/2031
28	湘窖龙匠红日	Hunan Xiangjiao	PRC	6/4/2031
29	湘窖龙匠紫星	Hunan Xiangjiao	PRC	13/4/2031
30	湘窖龙酱封坛贰号	Hunan Xiangjiao	PRC	13/4/2031

No.	Trademark	Registered Owner	Place of Registration	Expiration Date (dd/mm/yyyy)
31	邵 陽	Hunan Xiangjiao	PRC	28/2/2033
32	湘窖福酱	Hunan Xiangjiao	PRC	6/7/2032
33	李渡	Jiangxi Lidu	PRC	28/2/2033
34	李渡王	Jiangxi Lidu	PRC	13/9/2028
35	李渡元窖	Jiangxi Lidu	PRC	13/9/2031
36	李渡 1955 元代窖池	Jiangxi Lidu	PRC	13/7/2029
37	李渡古窖陈香	Jiangxi Lidu	PRC	20/9/2028
38	李渡知味轩	Jiangxi Lidu	PRC	6/12/2027
39	李渡元启	Jiangxi Lidu	PRC	27/3/2030
40	汤司令	Jiangxi Lidu	PRC	20/3/2030
41	李渡	Jiangxi Lidu	PRC	13/4/2031
42	李渡元始天珍	Jiangxi Lidu	PRC	20/6/2031
43	李渡头牌	Jiangxi Lidu	PRC	27/8/2031
44	李渡宋宴	Jiangxi Lidu	PRC	27/8/2031
45	李渡万寿宫	Jiangxi Lidu	PRC	13/9/2031
46	李渡宋香	Jiangxi Lidu	PRC	20/8/2031

No.	Trademark	Registered Owner	Place of Registration	Expiration Date (dd/mm/yyyy)
47		Jiangxi Lidu Sales	PRC	6/3/2031
48	李渡高粱	Jiangxi Lidu	PRC	6/7/2032
49	李渡封坛	Jiangxi Lidu	PRC	13/8/2032
50		ZJLD Group Inc	Hong Kong	13/1/2032

As of the Latest Practicable Date, we had applied for the registration of the following trademarks, which we consider to be material to our business:

No.	Trademark	Applicant	Place of Registration	Application Date
1	珍酒	Zhenjiu Brewing	PRC	May 24, 2021
2	珍十五	Zhenjiu Brewing	PRC	November 28, 2022
3	珍三十	Zhenjiu Brewing	PRC	November 28, 2022
4	珍酒	Zhenjiu Brewing	PRC	November 28, 2022
5	珍酒	Zhenjiu Brewing	PRC	November 28, 2022
6	湘窖红色记忆	Hunan Xiangjiao	PRC	January 16, 2023
7	湘窖龍匠	Hunan Xiangjiao	PRC	February 7, 2023
8	开口笑特曲T10	Hunan Xiangjiao	PRC	March 13, 2023
9	开口笑特曲T15	Hunan Xiangjiao	PRC	March 13, 2023
10	李渡古微	Jiangxi Lidu	PRC	October 14, 2022
11	李渡	Jiangxi Lidu	PRC	November 10, 2022

(b) Domain Name

As of the Latest Practicable Date, we had registered the following domain names which we consider to be material to our business:

No.	Domain Name	Registered Owner	Expiration Date (dd/mm/yyyy)
1.	gzzjc.cn	Zhenjiu Brewing	31/10/2023
2.	zjld.com	Zhenjiu Brewing	19/10/2025
3.	湘窖酒业.com	Hunan Xiangjiao	18/08/2023*
4.	湘窖酒业.net	Hunan Xiangjiao	19/08/2023*
5.	湘窖酒业.cn	Hunan Xiangjiao	25/07/2023*
6.	湖南湘窖.com	Hunan Xiangjiao	25/03/2024
7.	湖南湘窖.net	Hunan Xiangjiao	25/03/2024
8.	湖南湘窖.cn	Hunan Xiangjiao	25/03/2024
9.	xiangjiaojiuye.com	Hunan Xiangjiao	26/08/2023*
10.	lidujiu.com	Jiangxi Lidu Sales	09/01/2026
11.	zjld.com.hk	ZJLD Group Inc	14/01/2033
12.	zjld.hk	ZJLD Group Inc	30/12/2032

Note:

* The Company expects to make a renewal application on or before the expiration date.

(c) Patents

As of the Latest Practicable Date, we are the owner of the following material patents, details of which are as follows:

No.	Patent description	Registered Owner	Place of Registration
1	A production technology of sauce aroma liquor (一種醬香型白酒的生產工藝)	Zhenjiu Brewing	PRC
2	A campylobacter and its use (一種彎曲芽孢桿菌及其用途)	Zhenjiu Brewing	PRC
3	Brewery boiler steam feed water device (釀酒鍋爐蒸汽給水裝置)	Zhenjiu Brewing	PRC
4	Beer starch saccharification variable proportion mixing device (啤酒澱粉糖化變比例混合裝置)	Zhenjiu Brewing	PRC
5	Crushing and drying machine (粉碎晾糟機)	Zhenjiu Brewing	PRC
6	Liquor box (Sealed Zhen Jiu) (酒盒（封壇珍酒）)	Zhenjiu Brewing	PRC
7	Liquor bottle (Sealed Zhen Jiu) (酒瓶（封壇珍酒）)	Zhenjiu Brewing	PRC
8	Liquor bottle (Zhen Jiu Classic 1975) (酒瓶（珍酒經典 1975）)	Zhenjiu Brewing	PRC
9	Liquor box (Zhen Jiu Classic 1975) (酒盒（珍酒經典 1975）)	Zhenjiu Brewing	PRC

No.	Patent description	Registered Owner	Place of Registration
10	Liquor bottle (Zhen Jiu Zhen 30) (酒瓶（珍酒 - 珍三十）)	Zhenjiu Brewing	PRC
11	Liquor bottle (Zhen Jiu Zhen 15 Jiang Xin) (酒瓶（珍酒 - 珍十五匠心）)	Zhenjiu Brewing	PRC
12	Liquor box (Lao Zhen Jiu) (酒盒（老珍酒）)	Zhenjiu Brewing	PRC
13	Liquor box (Zhen Jiu Zhen 10) (酒盒（珍酒 珍十）)	Zhenjiu Brewing	PRC
14	Liquor bottle (Zhen Jiu Zhen 15) (酒瓶（珍酒 珍十五）)	Zhenjiu Brewing	PRC
15	Liquor box (Zhen Jiu Zhen 30) (酒盒（珍酒 珍三十）)	Zhenjiu Brewing	PRC
16	Liquor bottle (Zhen Jiu Zhen 10) (酒瓶（珍酒 珍十）)	Zhenjiu Brewing	PRC
17	Liquor box (Zhen Jiu Zhen 15) (酒盒（珍酒 珍十五）)	Zhenjiu Brewing	PRC
18	Liquor bottle (Kai Kou Xiao 20) (酒瓶（開口笑酒 20）)	Hunan Xiangjiao	PRC
19	Liquor box (Kai Kou Xiao 20) (酒盒（開口笑酒 20）)	Hunan Xiangjiao	PRC
20	Liquor box (Xiang Jiao Yao Qing 12987 Classic) (酒盒（湘窖 要情 12987經典）)	Hunan Xiangjiao	PRC
21	Liquor bottle (Xiang Jiao Yao Qing 12987 Classic) (酒瓶（湘窖 要情 12987經典）)	Hunan Xiangjiao	PRC
22	Liquor bottle (Xiang Jiao Red Diamond) (酒瓶（湘窖酒紅鑽）)	Hunan Xiangjiao	PRC
23	Liquor bottle (Shaoyang Daqu cellar stored 1988) (酒瓶（邵陽大曲酒窖藏1988）)	Hunan Xiangjiao	PRC
24	Packaging Kit (Kai Kou Xiao aged liquor 12) (包裝套件（開口笑十二年陳釀酒）)	Hunan Xiangjiao	PRC
25	Liquor box (Xiang Jiao Long Jiang Heaven and Earth Edition) (酒盒（湘窖龍匠天和地和版）)	Hunan Xiangjiao	PRC
26	Liquor bottle (Shaoyang Daqu Tequ) (酒瓶（邵陽大曲特曲）)	Hunan Xiangjiao	PRC
27	Liquor bottle (Xiang Jiao Long Jiang Heaven and Earth Series) (酒瓶（湘窖龍匠天地人和系列）)	Hunan Xiangjiao	PRC
28	Packaging kit (Xiang Jiao Red Diamond) (包裝套件（湘窖紅鑽）)	Hunan Xiangjiao	PRC
29	Liquor bottle (Shaoyang Daqu blue bottle) (酒瓶（邵陽大曲藍瓶）)	Hunan Xiangjiao	PRC

No.	Patent description	Registered Owner	Place of Registration
30	Packaging kit (Kai Kou Xiao aged liquor 15) (包裝套件（開口笑十五年陳釀酒）)	Hunan Xiangjiao	PRC
31	Packaging kit (Xiang Jiao Crystal Diamond) (包裝套件（湘窖酒水晶鑽）)	Hunan Xiangjiao	PRC
32	Liquor bottle (Kai Kou Xiao Fu Sauce Liquor) (酒瓶（開口笑福醬酒）)	Hunan Xiangjiao	PRC
33	Liquor bottle (Xiang Jiao Yao Qing) (酒瓶（湘窖 要情酒）)	Hunan Xiangjiao	PRC
34	Liquor box (Li Du Sorghum 1308) (酒盒（李渡高粱1308）)	Jiangxi Lidu	PRC
35	Packaging kit (Li Du Sorghum) (包裝套件（李渡高粱酒）)	Jiangxi Lidu	PRC
36	Liquor bottle (Treasure Li Du) (酒瓶（國寶李渡）)	Jiangxi Lidu	PRC
37	Liquor box (Treasure Li Du) (酒盒（國寶李渡）)	Jiangxi Lidu	PRC
38	Liquor bottle base (酒瓶底座)	Jiangxi Lidu	PRC
39	Liquor bottle (Li Du Jiao Ling) (酒瓶（李渡窖齡）)	Jiangxi Lidu	PRC
40	Packaging kit (Li Du Yuanshi Tianzhen Liquor) (包裝套件（李渡元始天珍酒）)	Jiangxi Lidu	PRC
41	Flagon (Li Du Song Banquet) (酒壺（李渡宋宴）)	Jiangxi Lidu Sales	PRC
42	Liquor bottle (Longevity Palace) (酒瓶（萬壽宮）)	Jiangxi Lidu Sales	PRC
43	Liquor jar (Treasure Sealed Jar) (酒壇（國寶封壇）)	Jiangxi Lidu Sales	PRC
44	Liquor bottle (Li Du Sorghum Ulaanbaatar Commemorative Edition) (酒瓶（李渡高粱烏蘭巴托紀念版）)	Jiangxi Lidu Sales	PRC
45	Liquor bottle (Li Du Sorghum 1308 Collection) (酒瓶（李渡高粱1308典藏）)	Jiangxi Lidu Sales	PRC

As of the Latest Practicable Date, we had applied for the registration of the following patents, which we consider to be material to our business:

No.	Patent Description	Applicant	Place of Registration	Application Date
1	A method and equipment for steaming rice husk with liquor tail steam (一種利用釀酒尾汽清蒸稻殼的方法及設備)	Hunan Xiangjiao	PRC	January 8, 2018
2	A sealing method of pit bottom well and pit surface in maotai-flavor pit (一種醬香型窖池窖底井和窖面的密封方法)	Hunan Xiangjiao	PRC	June 20, 2022
3	A production method of asymmetric maotai-flavor liquor (一種非對稱性的醬香型白酒生產方法)	Hunan Xiangjiao	PRC	June 20, 2022

(d) Copyrights

As of the Latest Practicable Date, we are the owner of the following material copyrights, details of which are as follows:

No.	Copyright Name	Registered Owner	Place of Registration
1.	Zhenjiu Xiaojiao Applet V1.0 (珍酒小窖小程序V1.0)	Zhenjiu Sales	PRC
2.	Lidu brand icon (李渡品牌圖標)	Jiangxi Lidu	PRC
3.	National treasure little commander (國寶小司令)	Jiangxi Lidu	PRC
4.	Lidu Cloud Store System V1.0 (李渡雲店鋪系統V1.0)	Jiangxi Lidu Sales	PRC

C. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Particulars of Directors' Service Contracts and Appointment Letters

(a) Executive Directors

Each of our executive Directors has entered into service contract with our Company on April 11, 2023. The initial term of their respective service contracts shall commence from the Listing Date until terminated in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than three months' prior notice.

(b) Non-executive Directors and Independent non-executive Directors

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with our Company on April 11, 2023. The initial term for their appointment letters shall commence from the Listing Date for a period of three years until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice.

2. Directors' Remuneration

Save as disclosed in the sections headed "Directors and Senior Management" and "Appendix I — Accountants' Report" in this prospectus, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.

3. Disclosure of Interests

Save as disclosed in the section headed "Substantial Shareholders", immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), the interests or short positions of our Directors and chief executives in the Shares, underlying Shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which he/she is taken or deemed to have taken under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

(i) Interest in our Company

Shareholder	Capacity / Nature of interest	Shares held as of the Latest Practicable Date		Shares held immediately following the completion of the Global Offering	
		Number	Approximate Percentage	Number	Approximate Percentage
Mr. Ng[(1)]	Interest in controlled corporation	1,397,915	2.51%	69,895,750	2.14%
Naputa Investment Inc.[(1)]	Interest in controlled corporation	1,397,915	2.51%	69,895,750	2.14%
Copland Investments Limited[(1)]	Interest in controlled corporation	1,397,915	2.51%	69,895,750	2.14%
ChinaNet[(1)]	Beneficial Owner	1,397,915	2.51%	69,895,750	2.14%

Note:

(1) ChinaNet is a wholly owned subsidiary of Copland Investments Limited, a company wholly owned by Naputa Investment Inc., which is wholly owned by Mr. Ng. By virtue of the SFO, Mr. Ng is deemed to be interested in the Shares in which ChinaNet is interested in.

(ii) Interest in our Company's associated corporation

Name of Director	Name of associated corporation	Nature of interest	Percentage of shareholding
Mr. Wu	Zhenjiu Holding	Beneficial owner	100%

4. Disclaimers

(a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;

(b) none of the Directors or the experts named in the paragraph headed "E. Other Information — 6. Consents of Experts" in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) save in connection with the Underwriting Agreements, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of the Company within the two years ended on the date of this prospectus;

(d) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group as a whole;

(e) save as disclosed in the section headed "Substantial Shareholders" and this section, taking no account of any Shares which may be taken up under the Global Offering, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the Global Offering, have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;

(f) save as disclosed in the section headed "Substantial Shareholders" and this section, none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange once the Shares are listed thereon;

(g) save in connection with the Underwriting Agreements, none of the experts listed in the paragraph headed "E. Other Information — 6. Consents of Experts" in this Appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

(h) so far as is known to our Directors, none of our Directors or their respective close associates or Shareholders (who to the knowledge of our Directors owns more than 5% of the number of our issued shares) has any interest in our five largest suppliers;

(i) there is no arrangement under which future dividends are waived or agreed to be waived;

(j) the Group has no outstanding convertible debt securities or debentures; and

(k) there is no hire or hire purchase of plant to or by any member of the Group.

D. POST-IPO EQUITY INCENTIVE PLAN

A summary of the principal terms of the Post-IPO Equity Incentive Plan conditionally approved and adopted in compliance with Chapter 17 of the Listing Rules by resolution of our Shareholders on April 11, 2023 is as follows.

(a) Purpose

The purpose of the Post-IPO Equity Incentive Plan is to incentivize and reward the Eligible Participants (as defined below) for their contribution to the Group and to align their interests with that of our Company so as to encourage them to work towards enhancing the value of our Company.

(b) Eligible Participants

The Board (which expression shall, for the purpose of this paragraph, include the Board or a duly authorized committee thereof) may, at its absolute discretion, offer to grant an option or a share award to subscribe for such number of Shares as the Board may determine to (a) an employee (whether full time or part-time) or a director of our Company or any of its subsidiaries (the "**Eligible Employee(s)**") and (b) directors and employees of the holding companies, fellow subsidiaries or associated companies of the Company ("**Related Entity Participant(s)**", together with the Eligible Employees referred as the "**Eligible Participant(s)**").

The eligibility of any Eligible Participants shall be determined by the Board from time to time on the basis of the Board's opinion as to, among others, the participant's individual performance, time commitment, responsibilities or employment conditions according to the prevailing market practice and industry standard, the length of engagement with or actual degree of involvement in and/or cooperation with the Group and the actual or potential contribution to the development and growth of the Group, and the amount of support, assistance, guidance, advice, effort and contributions the Eligible Participants have exerted and given towards the success of the Group.

(c) Maximum number of Shares

(i) Subject to paragraphs (iii) and (iv) below, the total number of Shares which may be issued upon exercise of all options and share awards to be granted under the Post-IPO Equity Incentive Plan shall not in aggregate exceed 5% of the relevant class of Shares in issue on the day on which trading of the Shares commences on the Stock Exchange (the "**Plan Mandate Limit**"), being 163,566,552 Shares (excluding any Shares which may be issued upon the exercise of the Over-allotment Option). Options and share awards lapsed in accordance with the terms of the Post-IPO Equity Incentive Plan will not be counted for the purpose of calculating the Plan Mandate Limit.

(ii) Subject to paragraph (iii) below, the Plan Mandate Limit may be refreshed at any time after three years from the date of Shareholders' approval for the last refreshment (or the date on which the Post-IPO Equity Incentive Plan is adopted, as the case may be) by approval of its Shareholders in general meeting provided that (1) any controlling shareholders and their associates (or if there is no controlling shareholder, directors (excluding independent non-executive directors) and the chief executive of our Company and their respective associates) must abstain from voting in favor of the relevant resolution at the general meeting; and (2) our Company must comply with the requirements under Rules 13.39(6), 13.39(7), 13.40, 13.41 and 13.42 of the Listing Rules. The requirements under (1) and (2) of this paragraph do not apply if the refreshment is made immediately after an issue of securities by our Company to the Shareholders on a pro rata basis as set out in Rule 13.36(2)(a) of the Listing Rules such that the unused part of the plan mandate (as a percentage of the relevant class of Shares in issue) upon refreshment is the same as the unused part of the plan mandate immediately before the issue of securities, rounded to the nearest whole Share.

(iii) The total number of Shares which may be issued upon exercise of all options and share awards to be granted under the Post-IPO Equity Incentive Plan and any other plans of our Company under the plan mandate as refreshed must not exceed 10% of the relevant class of Shares in issue as at the date of approval of the refreshed plan mandate.

(iv) Without prejudice to paragraph (iii) above, our Company may seek separate Shareholders' approval in a general meeting to grant options and/or share awards beyond the Plan Mandate Limit to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to its Shareholders containing a general description of the specified participants, the number and terms of options and/or share awards to be granted, the purpose of granting options and/or share awards to the specified participants with an explanation as to how the terms of the options and/or share awards will serve such purpose and all other information required under the Listing Rules.

(d) Maximum entitlement of a grantee

Where any grant of options or share awards to a participant would result in the Shares issued and to be issued upon exercise of all options and/or share awards granted and to be granted to such participant (excluding any options and share awards lapsed in accordance with the terms of the Post-IPO Equity

Incentive Plan) in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the relevant class of Shares in issue, such grant must be separately approved by the Shareholders in general meeting with such participant and his/her close associates (or his/her associates if the participant is a connected person) abstaining from voting. The number and terms (including the exercise price) of options and/or share awards to be granted to such participant must be fixed before Shareholders' approval.

(e) Grant and exercise of options and share awards

The Board or a duly authorized committee thereof may in its absolute discretion specify such event, time limit or conditions (if any) as it thinks fit when making such offer to the Eligible Participants, including, without limitation, conditions as to performance criteria (such as growth rate of revenue, earnings per share and/or total shareholders' return) to be satisfied or achieved by the Eligible Participants and/or our Company and/or the Group which must be satisfied before an option or a share award can be exercised.

An offer of the grant of an option or a share award shall be made to any Eligible Participants by letter in such form as the Board or a duly authorized committee thereof may from time to time determine specifying the number of Shares, the vesting period, the subscription price, the option period, the date by which the grant must be accepted and further requiring the Eligible Participants to hold the option or share award on the terms on which it is to be granted and to be bound by the provisions of the Post-IPO Equity Incentive Plan. An option or a share award shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising acceptance of the offer of the grant of the option or share award duly signed by the grantee together with a payment to our Company and/or any of its subsidiaries of HK$1 (or the equivalent of HK$1 in the local currency of any jurisdiction where our Company and/or its subsidiaries operate, as the Board or a duly authorized committee thereof may in its absolute discretion determine) by way of consideration for the grant thereof is received by our Company within the time period specified in the offer of the grant of the option or share award.

An option or a share award shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any option or share award. Any breach of the foregoing by the grantee shall entitle our Company to cancel any outstanding entitlement of such grantee.

An option may be exercised in accordance with the terms of the Post-IPO Equity Incentive Plan at any time during a period to be determined and notified by the Board to each grantee, which period may commence on a day falling at least 12 months after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date on which an option is offered to a participant, subject to the provisions for early termination under the Post-IPO Equity Incentive Plan. In any event, the minimum period for which an option or a share award must be held before it can be vested and exercised (if applicable) shall be 12 months.

(f) Subscription price

The amount payable for each Share to be subscribed for under an option (the "**Subscription Price**") in the event of the option being exercised shall be determined by the Board or a duly authorized committee thereof at its absolute discretion, which shall be not less than the highest of:

(i) the nominal value of a Share;

(ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and

(iii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

The amount payable for each Share to be subscribed for under a share award (the "**Purchase Price**") shall be determined by the Board or a duly authorized committee thereof at its absolute discretion, based on considerations such as the prevailing closing price of the Shares, the purpose of the share award and the contribution of the Eligible Participant.

(g) Options and share awards granted to connected persons

(i) Any grant of options or share awards to a director, chief executive or substantial shareholder of the Company, or any of their associates must be approved by the independent non-executive Director (excluding any independent non-executive Director who is the grantee of the options or share awards.

(ii) Where any grant of share awards (excluding grant of options) to a director (other than an independent non-executive Director) or chief executive of the Company, or any of their associates would result in the shares issued and to be issued in respect of all share awards granted (excluding any share awards lapsed in accordance with the terms of the Post-IPO Equity Incentive Plan) to such person in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the Shares in issue, such further grant of share awards must be approved by the Shareholders at a general meeting of our Company, with voting to be taken by way of poll.

(iii) Where any grant of options or share awards to an independent non-executive Director or a substantial shareholder of our Company or any of their respective associates would result in the Shares issued and to be issued in respect of all options and awards granted (excluding any options lapsed in accordance with the terms of the Post-IPO Equity Incentive Plan) under the Post-IPO Equity Incentive Plan and any other plans of our Company to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the Shares in issue, such further grant of options or share awards must be approved by the Shareholders at a general meeting of our Company, with voting to be taken by way of poll.

Our Company shall send a circular to the Shareholders containing all information as required under the Listing Rules in this regard. The grantee, his/her associates and all core connected persons (as defined in the Listing Rules) of our Company shall abstain from voting (except where any core connected person intends to vote against the proposed grant and his/her intention to do so has been stated in the aforesaid circular). Any change in the terms of an option or a share award granted to a Director, a chief executive, a substantial shareholder of our Company or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner if the initial grant of the options or share awards requires such approval.

(h) Restriction of grant of options and share awards

No option or share awards shall be offered or granted:

(i) to any Eligible Participant after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until (and including) the trading day after the relevant price sensitive or inside information has been announced in accordance with the applicable provisions of law or the Listing Rules;

(ii) to any Eligible Participant during the period commencing one month immediately before the following (whichever is earlier):

(a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's annual, quarterly (if any) or half-yearly results; and

(b) the deadline for our Company to publish an announcement of its annual, quarterly (if any) or half-yearly results;

and ending on the date of the results announcement. No option or share award shall be granted during any period of delay in the publication of a results announcement;

(iii) to any Director (except where the Subscription Price is to be determined by the Board or a duly authorized committee thereof at the time of exercise of the option):

(a) during the period of 60 days immediately preceding the publication of the annual results of our Company or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; or

(b) during the period of 30 days immediately preceding the publication of the quarterly (if any) or half-yearly results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(i) Lapse of options and share awards

Any option or share award shall elapse automatically and not be exercisable on the earliest of:

(i) the expiry of the option period or other applicable exercisable periods under the Post-IPO Equity Incentive Plan;

(ii) the expiry of the periods or the occurrence of the relevant event referred to in (l)(i) and (l)(iii) below;

(iii) subject as provided in the Post-IPO Equity Incentive Plan, the date of the commencement of the winding-up of our Company;

(iv) the date on which the grantee commits a breach of relevant clauses that rights are personal to the grantee; or

(v) the occurrence or non-occurrence of any event, expiry of any period, or non- satisfaction of any condition, as specified in the letter containing the offer or grant of the relevant option or share award.

(j) Voting and dividend rights

No grantee shall enjoy any of the rights of a Shareholder (including but not limited to voting, dividend, transfer rights or any other rights attached to a Share) by virtue of the grant of an option or a share award pursuant to the Post-IPO Equity Incentive Plan, unless and until the registration of the grantee (or such other person as may succeed to the grantee's title by operation of applicable laws and in compliance with the terms of the Post-IPO Equity Incentive Plan) as the holder thereof.

For the avoidance of doubt, the trustee holding unvested Shares under the Post-IPO Equity Incentive Plan, whether directly or indirectly, shall abstain from voting on matters that require shareholders' approval under the Listing Rules, unless otherwise required by law to vote in accordance with the beneficial owner's direction and such a direction is given.

(k) Effects of alterations in the capital structure of our Company

In the event of a capitalization issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option or a share award remains outstanding, such corresponding adjustment (if any) certified by the auditors for the time being of or an independent financial advisor to our Company as fair and reasonable will be made to:

(a) the number of Shares to which the option or the share award relates, so far as outstanding, and/or

(b) the Subscription Price of any unexercised option and the Purchase Price of any outstanding share awards, provided that (i) any such alteration shall give a grantee the same proportion of the issued share capital (rounded to the nearest whole Share) to which the grantee was entitled prior to such alteration; (ii) any such adjustments shall be made on the basis that the aggregate Subscription Price and Purchase Price payable by a grantee on the full exercise of any option or share award shall remain as nearly as possible the same as it was before such event; and (iii) no adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any adjustment made on a capitalization issue, such auditors or independent financial advisor must confirm to the Board in writing that the adjustments comply with the relevant provisions of the Listing Rules (or any guideline or supplementary guideline as may be issued by the Stock Exchange from time to time).

(l) Rights on ceasing employment, death, or dismissal

(i) If the grantee of an option or a share award is an employee and ceases to be an employee for any reason other than death, or for serious misconduct or other grounds referred to in sub-paragraph (iii) below before exercising his/her option or share award in full, the option or share award (to the extent not already exercised) will lapse automatically on the date of cessation of his/her employment or engagement with the Group.

(ii) If the grantee of an option or a share award is an employee and ceases to be an employee by reason of his/her death, before exercising the option or share award in full, his/her legal personal representative(s), or, as appropriate, the grantee may exercise the option or share award (to the extent not already exercised) in whole or in part within a period of 12 months following the date of death of the grantee.

(iii) If the grantee of an option or a share award is an employee and ceases to be an employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his/her creditors generally, or has been convicted of any criminal offense involving his/her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his/her employment summarily, his/her option or share award will lapse automatically on the date of cessation of his/her employment with the Group.

(m) Rights on takeover and plans of compromise or arrangement

If a general or partial offer (whether by way of take-over offer, share repurchase offer or otherwise in like manner other than by way of a plan of arrangement) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror) our Company shall use its best endeavors to procure that such offer is extended to all the grantees (on the same terms mutatis mutandis, and assuming that they will become, by the exercise in full of the options and/or share awards granted to them, Shareholders of our Company). If such offer becomes or is declared unconditional, the grantee (or his/her legal personal representative(s)) shall be entitled to exercise the grantee's outstanding entitlement in full at any time within 14 days after the date on which such general offer becomes or is declared unconditional.

(n) Rights on a voluntary winding-up

In the event of an effective resolution being passed for the voluntary winding-up of our Company or an order of the court being made for the winding-up of our Company, notice thereof shall be given by our Company to grantees with options and/or share awards outstanding in full or in part at such date. If a grantee immediately prior to such event had any outstanding entitlement, the grantee (or his legal personal representative(s)) may by notice in writing to our Company within 21 days after the date of such resolution elect to be treated as if the entitlement had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in the notice, such notice to be accompanied by a remittance for the full amount of the aggregate Subscription Price or Purchase Price for the Shares in respect of which the notice is given, whereupon the grantee shall be duly transferred with the relevant Shares (or treated as such by our Company) and entitled to receive out of the assets available in the liquidation pari passu with the holders of Shares such sum as would have been received in respect of the Shares that are the subject of such election.

(o) Ranking of Shares

The Shares underlying the options and the share awards will be subject to all the provisions of the Articles of Association of our Company for the time being in force and will rank pari passu with the fully paid Shares in issue on the date of such transfer and accordingly will entitle the holders to participate in all dividends and other distributions paid or made on or after the date of such transfer other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor falls before the date of such transfer.

(p) Duration

The Post-IPO Equity Incentive Plan shall be valid and effective for a period of 10 years commencing on the date when the Post-IPO Equity Incentive Plan becomes unconditional, after which period no further options or share awards will be granted by the provisions of the Post-IPO Equity Incentive Plan, but the provisions of the Post-IPO Equity Incentive Plan shall remain in full force and effect to the extent necessary to give effect to the exercise of any options or share awards granted prior thereto or otherwise as may be required in accordance with the provisions of the Post-IPO Equity Incentive Plan.

(q) Alteration of the Plan

The Board may subject to the rules of the Post-IPO Equity Incentive Plan amend any of the provisions of the Post-IPO Equity Incentive Plan at any time (but not so as to affect adversely any rights which have accrued to any grantee at that date).

Any alterations to the terms and conditions of the Post-IPO Equity Incentive Plan which are of a material nature, and any change to the terms of any options or share awards granted to the advantage of Eligible Participants, shall be subject to the approval of the Shareholders in general meeting and, where required under the Listing Rules, the Stock Exchange.

Any change to the terms of options or share awards granted to a Eligible Participant must be approved by the Board, the remuneration committee, the independent non-executive Directors and/or the Shareholders (as the case may be) if the initial grant of the options or share awards was approved by the Board, the remuneration committee, the independent non-executive Directors and/or the Shareholders (as the case may be). Such requirement does not apply where the alterations take effect automatically under the existing terms of the Post-IPO Equity Incentive Plan.

(r) Cancelation of options and share awards

Any cancelation of options or share awards granted may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in a manner that complies with all applicable legal requirements for such cancelation. Where our Company cancels options and/or share awards granted to a participant and makes a new grant to the same participant, such new grant may only be made under the Post-IPO Equity Incentive Plan with available Plan Mandate Limit approved by the Shareholders. The options or share awards canceled will be regarded as utilized for the purpose of calculating the Plan Mandate Limit.

(s) Clawback

The Board may, at its absolute discretion, determine such malus and/or clawback provisions to be applied to an option and a share award or an offer of grant so as to provide, upon the occurrence of the applicable malus and/or clawback event(s) such as serious misconduct, a material misstatement in our Company's financial statements and fraud. If the Board exercises its discretion under this paragraph, it will give the relevant grantee written notice of such determination and the Board's interpretation of and determination pursuant to this paragraph shall be final, conclusive and binding.

(t) Termination

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Post-IPO Equity Incentive Plan and in such event no further options or share awards will be offered but the provisions of the Post-IPO Equity Incentive Plan shall remain in full force in all other respects. All options and share awards granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the Post-IPO Equity Incentive Plan.

(u) Value of option and share awards

Our Directors consider it inappropriate to disclose the value of options and/or share awards which may be granted under the Post-IPO Equity Incentive Plan as if they had been granted as of the Latest Practicable Date. Any such valuation will have to be made on the basis of a certain option and/or share awards pricing model or other method that depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options or share awards have been granted, certain variables are not available for calculating the value of options or share awards. Our Directors believe that any calculation of the value of options and share awards granted as of the Latest Practicable Date would be based on a number of speculative assumptions that are not meaningful and would be misleading to investors.

(v) General

As of the Latest Practicable Date, no options or share awards had been granted or agreed to be granted under the Post-IPO Equity Incentive Plan.

E. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

So far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

3. Joint Sponsors

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The Joint Sponsors will receive an aggregate fee of US$1 million for acting as the sponsor for the Listing.

4. Compliance Advisor

Our Company has appointed Somerley Capital Limited as our Compliance Advisor in compliance with Rule 3A.19 of the Listing Rules.

5. Preliminary Expenses

We have not incurred any material preliminary expenses in relation to the incorporation of our Company.

6. Consents of Experts

The following experts have each given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Name	Qualification
Goldman Sachs (Asia) L.L.C.	A licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
China Securities (International) Corporate Finance Company Limited	A licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified Public Accountants Public Interest Entity Auditor Registered in accordance with the Accounting and Financial Reporting Council Ordinance

Name	Qualification
Conyers Dill & Pearman	Legal advisors to the Company as to Cayman Islands laws
King & Wood Mallesons	Legal advisor to the Company as to PRC laws
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry Consultant

As at the Latest Practicable Date, none of the experts named above had any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

7. Agency Fees or Commissions Paid or Payable

Save in connection with the Underwriting Agreements, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company within the two years immediately preceding the date of this prospectus.

8. No Material Adverse Change

The Directors confirm that there has been no material adverse change in our financial or trading position since December 31, 2022 (being the date to which the latest audited financial statements of our Group were made up) up to the date of this prospectus.

9. Other Disclaimers

(a) Within the two years immediately preceding the date of this prospectus:

(i) save as disclosed in the section headed "History, Development and Corporate Structure", no share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued for cash or as fully or partly paid other than in cash or otherwise; and

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(b) Our Directors confirm that:

(i) save as disclosed in the section headed "History, Development and Corporate Structure", there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;

(ii) no share or loan capital or debenture of our Company of any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and

(iii) save in connection with the Underwriting Agreements, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company or any of our subsidiaries.

(c) none of our Directors or proposed Directors or experts (as named in this prospectus), have any interest, direct or indirect, in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

(d) We do not have any promoters. No cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.

(e) There is no restriction affecting the remittance of profits or repatriation of capital of our Company into Hong Kong from outside Hong Kong.

10. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

11. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of the **GREEN** Application Form;

(b) the written consents referred to in "Statutory and General Information — E. Other information — 6. Consents of experts" in Appendix IV; and

(c) a copy of each of the material contracts referred to in "Statutory and General Information — B. Further Information about our business — 1. Summary of Material Contracts" in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.zjld.com** during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum of Association and the Articles of the Company;

(b) the Accountants' Report and the report on the unaudited pro forma financial information of our Group prepared by KPMG, the text of which is set out in Appendix I and II to this prospectus;

(c) the audited consolidated financial statements of our Company for the three years ended December 31, 2022;

(d) the legal opinion issued by King & Wood Mallesons, our PRC Legal Advisor in respect of general matters and property interests of our Group in the PRC;

(e) the letter of advice from Conyers Dill & Pearman, our legal advisor as to the law of the Cayman Islands, summarizing certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus;

(f) the industry report prepared by Frost & Sullivan;

(g) the material contracts referred to in "B. Further Information about our Business — 1. Summary of Material Contracts" in Appendix IV;

(h) the written consents referred to in "E. Other Information — 6. Consents of Experts" in Appendix IV;

(i) the service contracts or letters of appointment referred to in "C. Further information about our Directors — 1. Particulars of Directors' Service Contracts and Appointment Letters" in Appendix IV;

(j) the Cayman Companies Act; and

(k) terms of the Post-IPO Equity Incentive Plan.

珍酒李渡集團有限公司

ZJLD Group Inc