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,
	2020	2021	2022	2023
	(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.