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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

See the section headed “Business — Our Growth Strategies” in this prospectus for a detailed description of our future plans.

### USE OF PROCEEDS

The table below sets forth the estimated net proceeds of the Global Offering which we will receive after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering (assuming the Over-allotment Option is not exercised):

Assuming an Offer Price of HK\$11.88 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus) . . . . .	HK\$5,518 million
Assuming an Offer Price of HK\$12.98 per Offer Share (being the high end of the Offer Price range stated in this prospectus) . . . . .	HK\$6,039 million
Assuming an Offer Price of HK\$10.78 per Offer Share (being the low end of the Offer Price range stated in this prospectus) . . . . .	HK\$4,997 million

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

- approximately 55.0%, or HK\$3,035 million, will be used over the next five years to fund the construction and development of our production facilities, thereby expanding our baijiu production capacity progressively. In the past few years, China’s baijiu market has continued to grow, with revenue increasing from RMB536.4 billion in 2018 to RMB603.3 billion in 2021. Driven by continued product innovation, improvement of baijiu-making techniques and consumers’ increasing awareness, such growth momentum is expected to remain strong in the near future. According to Frost & Sullivan, China’s baijiu market is expected to continue to expand from RMB621.1 billion in 2022 to RMB769.5 billion in 2026, representing a CAGR of 5.5%. Additionally, due to increasing market acceptance, China’s sauce aroma baijiu market has grown at a CAGR of 15.8% from RMB105.6 billion in 2017 to RMB190.0 billion in 2021. It is expected that sauce aroma baijiu to continue to grow significantly in market share, and become the largest aroma type in terms of revenue in China’s baijiu market by 2026, with market share of 41.8%. See “Industry Overview” for details.

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To capture these tremendous market opportunities, we believe it is in our best interest to scale our baijiu production capacity rapidly in the next few years, with a goal to solidify our market leadership and improve our profitability through economies of scale to drive long-term growth. We plan for the expansion of three existing production facilities and the construction of one new production facility to increase our production capacity. These planned projects are expected to increase our annual production capacity of base liquor by 26,000 tons by 2024, among which 16,600 tons are for sauce aroma base liquor. In addition, we plan to build a new base liquor storage facility, namely *Zhen Jiu* (Bai Yan Gou) (白岩溝), to accommodate our expanding production capacity. Set forth below are certain details of these production facilities and our intended allocation of net proceeds among these production facilities:

Production Facility	Geographic Location	Major Brand(s) Served	Designed Production Capacity of Base Liquor (tons per year)	Intended Allocation of Net Proceeds from the Global Offering (HK\$ in millions)
<i>Zhen Jiu</i> (Zhao Jia Gou) (趙家溝) (Expansion)	Zunyi, Guizhou	<i>Zhen Jiu</i>	6,000	848
<i>Zhen Jiu</i> (Mao Tai Zhen Shuang Long) (茅台鎮雙龍) (Expansion)	Zunyi, Guizhou	<i>Zhen Jiu</i>	10,600	1,044
<i>Zhen Jiu</i> (Bai Yan Gou) (白岩溝)	Zunyi, Guizhou	<i>Zhen Jiu</i>	N/A, base liquor storage facility	704
<i>Li Du</i> (Zheng Jia Shan) (鄭家山)	Lidu, Jiangxi	<i>Li Du</i>	5,000	320
<i>Xiang Jiao</i> (Jiang Bei) (江北) (Expansion)	Shaoyang, Hunan	<i>Xiang Jiao</i> and <i>Kai Kou Xiao</i>	4,400	119

We build these production facilities with a view to ramping up our baijiu production capacity for mid- to long-term customer demand. The utilization of these facilities depends on multiple factors, including changing market dynamics. For additional information, see “Business — Production Facilities — Planned Production Capacity Expansion.”

We intend to use the net proceeds to fund the construction and development of these production facilities, including:

- (i) approximately 30.0%, or HK\$1,655 million, will be used to fund the construction of factory buildings at these production facilities, and the allocation of amount is determined by reference to the expected capital expenditures required to complete the construction, as well as capital and other resources available to us;
- (ii) approximately 15.0%, or HK\$828 million, will be used to recruit, train and retain staff at these production facilities, and this allocation of amount is determined based on the estimation that an aggregate number of approximately 1,800 to 3,000 staff will be recruited

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to these production facilities as the construction progresses and our production capacity in these production facilities continues to ramp up; and

- (iii) approximately 10.0%, or HK\$552 million, will be used to purchase equipment and facilities, such as pipe conveyors, air coolers, liquor tanks, dual-beam cranes, and packaging lines, to be installed across these production facilities. This allocation of amount is determined based on the estimated number of each of such equipment and facilities that our new production facilities would require and their respective market prices;
- approximately 20.0%, or HK\$1,104 million, will be used over the next five years in brand building and market promotion, with a goal to drive brand awareness and foster a growing loyal consumer base. Historically we have benefited from our substantial investments in widespread advertisement placement, which has been a large component of our selling and distribution expenses. Our advertisement expenses amounted to RMB241.7 million, RMB669.2 million and RMB665.6 million in 2020, 2021 and 2022, respectively. These investments have enabled us to significantly increase our exposure to target consumers and build a strong brand awareness, which have driven our revenue growth during the Track Record Period. Going forward, we plan to continue to increase and optimize advertisements placement across media channels, including television and radio, airport and railway stations, outdoor billboards, office and residential building elevators and online channels. In particular, we plan to increase our investment in online marketing initiatives and campaigns, including launching short videos oriented to baijiu culture and our brands and partnering with key opinion leaders across social media platforms, to convey our brand propositions and encourage viral dissemination of our brand names. In addition, we intend to constantly organize and sponsor industry events, such as distillery tours and baijiu tasting events, to drive consumers' awareness about baijiu and our brands particularly.
- approximately 10.0%, or HK\$552 million, will be used over the next five years to expand our sales channels, with a goal to continue to drive revenue growth, including:
  - approximately 6.0%, or HK\$331 million, will be used to expand our distribution network across China, including to provide operational support for our distributors pursuant to our distribution agreements to motivate their sales and marketing activities; and
  - approximately 4.0%, or HK\$221 million, will be used to strengthen our sales team to drive our direct sales and to better serve our expanding distribution network, including recruiting, training and retaining in-house sales personnel and ramping up our business presence across various e-commerce platforms;
- approximately 5.0%, or HK\$276 million, will be used over the next five years to automate and digitalize our business operations leveraging advanced technologies such as data analytics, artificial intelligence, and IoT, with a goal to streamline and optimize baijiu production process, improve operational efficiency and drive long-term profitable growth;
- the remaining approximately 10.0%, or HK\$552 million, will be used for working capital and general corporate purposes.

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The following table sets out how the proceeds are expected to be allocated in the next few years with respect to each of the intended uses mentioned above.

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
			(%)		
Construction and development of production facilities <sup>(1)</sup> . . . . .	30	25	20	15	10
Brand building and market promotion . . . . .	5	10	20	30	35
Expansion of sales channels . . . . .	5	15	20	25	35
Business automation and digitalization transformation . . . . .	25	35	20	10	10
Working capital and general corporate purposes . . . . .	20	20	20	20	20

*Note:*

(1) The proceeds are expected to be applied to the construction and development of certain facilities auxiliary to the production facilities currently under construction, such as warehouses, administration buildings and greening, from 2025 to 2027.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated offer price range.

To the extent our net proceeds are either more or less than expected, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by the relevant law and regulations, we can only place the net proceeds into short-term deposits with licensed banks and authorized financial institutions in Hong Kong or the PRC (as defined under the Securities and Futures Ordinance and the applicable laws in the PRC). We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

If the Over-allotment Option is fully exercised, our Company will receive additional net proceeds of approximately HK\$844 million for 73,604,800 Shares to be allotted and issued upon the full exercise of the Over-allotment Option based on the Offer Price of HK\$11.88 per Offer Share, being the mid-point of the Offer Price range, and after deducting the underwriting fees and commissions payable by our Company. The additional amount raised will be applied to the above areas of use of proceeds on pro-rata basis.