

SUMMARY

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

There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set out in the section headed “Risk Factors” in this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

Who We Are

We are a leading baijiu company in China devoted to offering premium baijiu products featuring sauce aroma profile. According to Frost & Sullivan, we were the fourth largest private-owned baijiu company and ranked third among all baijiu companies with three or more aroma types, 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.

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

Our Market Opportunities

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

Baijiu products in China are classified into four price hierarchies, i.e., deluxe, premium, mid-range and value. Leveraging our insight into the premiumization trend as well as our rich heritage and strong

SUMMARY

brand recognition, we primarily target our products at the premium and above baijiu market. As a percentage of our total revenue, revenue generated from our premium and above baijiu products increased from 51.7% in 2020 to 64.7% in the nine months ended September 30, 2022. The market size of premium and above baijiu in China is expected to grow at the fastest rate among all price ranges, at a CAGR of 12.3% from 2022 to 2026, from RMB234.1 billion in 2022 to RMB371.9 billion in 2026, according to Frost & Sullivan. The market share of premium and above baijiu in China’s baijiu market is expected to grow from 37.7% in 2022 to 48.3% in 2026.

With sauce aroma baijiu being our major growth engine, we produce and sell sauce aroma, mixed aroma and strong aroma baijiu. According to Frost & Sullivan, in 2021, the market size of these three baijiu aroma profiles was approximately RMB506.9 billion, accounting for nearly 85% of the total market size, with the sauce aroma profile having the highest growth potential. As a percentage of our total revenue, revenue generated from our sauce aroma baijiu products increased from 59.6% in 2020 to 71.1% in the nine months ended September 30, 2022. The market size of sauce aroma baijiu in China is expected to grow at a CAGR of 12.2% from 2022 to 2026, from RMB203.3 billion in 2022 to RMB321.7 billion in 2026, according to Frost & Sullivan. The market share of sauce aroma baijiu in China’s baijiu market is expected to grow from 32.7% in 2022 to 41.8% in 2026, surpassing that of strong aroma baijiu and becoming the largest among all aroma profiles, according to the same source. While experiencing growing popularity among consumers, premium sauce aroma baijiu has been in short supply due to the intricate process and longer period of production, and the scarcity of suitable terroir. As a result, sauce aroma baijiu, which accounts for only 8.4% of the total baijiu production in China, generated 31.5% of the revenue and over 45% of the profit of China’s entire baijiu industry in 2021, according to Frost & Sullivan. The growing popularity of sauce aroma baijiu underpins promising growth potential. We believe we are well positioned to continue to benefit from this trend, especially with the continued growth of our flagship sauce aroma brand *Zhen Jiu*.

Our Growth Engines

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

SUMMARY

During the Track Record Period, we achieved strong growth and outstanding profitability. In 2020, 2021 and the nine months ended September 30, 2021 and 2022, our total revenue reached RMB2,398.9 million, RMB5,101.6 million, RMB3,593.6 million and RMB4,249.2 million, respectively, representing an increase by 112.7% from 2020 to 2021 and an increase by 18.2% from the nine months ended September 30, 2021 to the same period in 2022. In 2020, 2021 and the nine months ended September 30, 2021 and 2022, our net profit margin was 21.7%, 20.2%, 21.7% and 16.8%, respectively, while our adjusted net profit margin (non-IFRS measure) for the same periods was 21.7%, 21.0%, 21.7% and 20.3%, respectively.

OUR COMPETITIVE STRENGTHS AND GROWTH STRATEGIES

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

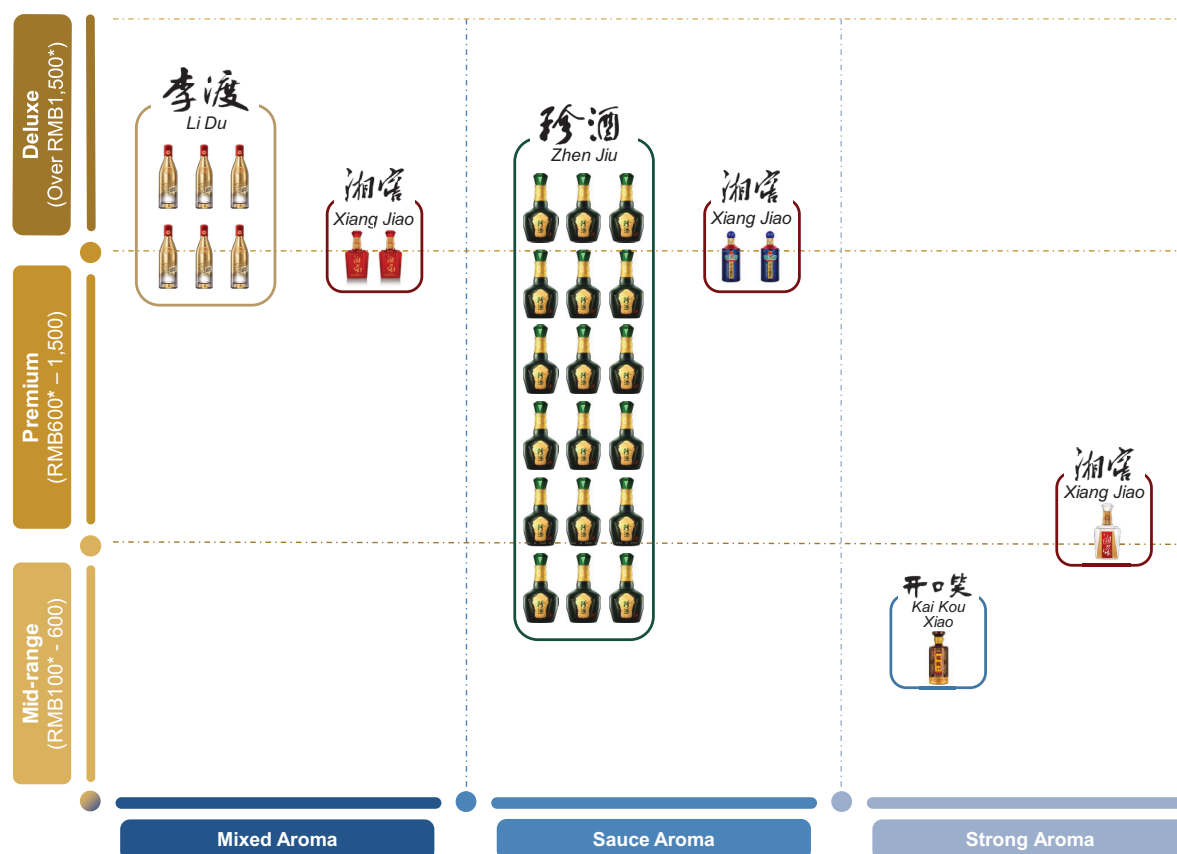
- A leading baijiu company carrying forward rich heritage and winning strong brand recognition.
- Three tiers of growth engines driving strong and sustainable growth.
- Sizable production capacity located in scarce and top baijiu production regions underpinning our core competitiveness and long-term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

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

SUMMARY

OUR BRANDS AND PRODUCTS

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



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

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

	For the year ended December 31,				For the nine months ended September 30,			
	2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)							
<i>Zhen Jiu</i>	1,345,546	56.1	3,487,573	68.4	2,364,310	65.8	2,764,041	65.0
<i>Li Du</i>	359,225	15.0	649,954	12.7	494,775	13.8	634,700	14.9
<i>Xiang Jiao</i>	394,879	16.5	605,569	11.9	470,348	13.1	521,284	12.3
<i>Kai Kou Xiao</i>	172,033	7.1	256,579	5.0	191,792	5.3	258,361	6.1
Others*	127,232	5.3	101,918	2.0	72,364	2.0	70,810	1.7
Total	2,398,915	100.0	5,101,593	100.0	3,593,589	100.0	4,249,196	100.0

* Note: consisting primarily of revenue generated from the sales of baijiu products under the brand *Shao Yang*.

SUMMARY

OUR CUSTOMERS AND SALES CHANNELS

Our customers consist primarily of our distributors and direct sales clients. We sell our baijiu products mainly through a nationwide network of distributors as well as via our direct sales team. We generally take into account a number of factors to set the prices of our baijiu products, including brand positioning, cost of production, market demand and competition. The following table sets forth a breakdown of our revenue by sales channels for the periods indicated.

	For the year ended December 31,				For the nine months ended September 30,			
	2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(unaudited)</i>							
	<i>(in thousands, except percentages)</i>							
Distributors								
Distribution partners	1,672,982	69.7	3,265,533	64.0	2,383,735	66.3	2,614,312	61.5
Featured stores	346,526	14.5	1,087,623	21.3	705,291	19.6	852,885	20.1
Retailers	93,805	3.9	176,023	3.5	135,893	3.8	284,877	6.7
Subtotal	<u>2,113,313</u>	<u>88.1</u>	<u>4,529,179</u>	<u>88.8</u>	<u>3,224,919</u>	<u>89.7</u>	<u>3,752,074</u>	<u>88.3</u>
Direct sales	<u>285,602</u>	<u>11.9</u>	<u>572,414</u>	<u>11.2</u>	<u>368,670</u>	<u>10.3</u>	<u>497,122</u>	<u>11.7</u>
Total	<u>2,398,915</u>	<u>100.0</u>	<u>5,101,593</u>	<u>100.0</u>	<u>3,593,589</u>	<u>100.0</u>	<u>4,249,196</u>	<u>100.0</u>

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

SUMMARY

OUR PRODUCTION

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

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

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

PROCUREMENT AND SUPPLIERS

We believe that maintaining high quality of our products depends largely on our ability to acquire the best available raw materials and other necessary supplies from reliable suppliers. We primarily procure raw materials and supplies, such as grains, and packaging materials and low value consumables such as baijiu bottles and packages, and base liquor. We particularly place a significant focus on the procurement of production materials, which have a material and direct impact on the quality and taste of our baijiu products, and in turn, our brand reputation.

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

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

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

	For the year ended December 31,				For the nine months ended September 30,			
	2020		2021		2021		2022	
	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue
	<i>(in thousands, except percentages)</i>							
Revenue	2,398,915	100.0	5,101,593	100.0	3,593,589	100.0	4,249,196	100.0
Cost of sales	(1,145,794)	(47.8)	(2,371,847)	(46.5)	(1,682,870)	(46.8)	(1,902,665)	(44.8)
Gross profit	1,253,121	52.2	2,729,746	53.5	1,910,719	53.2	2,346,531	55.2
Other income	50,268	2.1	47,660	0.9	35,242	1.0	66,976	1.6
Selling and distribution expenses	(402,873)	(16.8)	(1,020,510)	(20.0)	(681,298)	(19.0)	(983,139)	(23.1)
Administrative expenses	(157,906)	(6.6)	(289,344)	(5.7)	(187,977)	(5.2)	(260,606)	(6.1)
Impairment loss on trade receivables	(1,308)	(0.1)	(982)	(0.0)	(1,821)	(0.1)	(3,438)	(0.1)
Profit from operations	741,302	30.9	1,466,570	28.7	1,074,865	29.9	1,166,324	27.4
Finance costs	(39,743)	(1.7)	(36,420)	(0.7)	(27,189)	(0.8)	(27,916)	(0.7)
Changes in fair value in financial instruments issued to an investor	–	–	(21,617)	(0.4)	–	–	(131,991)	(3.1)
Profit before taxation	701,559	29.2	1,408,533	27.6	1,047,676	29.2	1,006,417	23.7
Income tax	(181,471)	(7.6)	(376,336)	(7.4)	(266,473)	(7.4)	(294,186)	(6.9)
Profit attributable to equity shareholders of the Company for the year/period	520,088	21.7	1,032,197	20.2	781,203	21.7	712,231	16.8

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 items that our management does not consider to be

SUMMARY

indicative of our operating performance. 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,		For the nine months ended September 30,	
	2020	2021	2021	2022
			<i>(unaudited)</i>	
			<i>(RMB in thousands, except percentages)</i>	
Profit attributable to equity shareholders of the Company for the year/period	520,088	1,032,197	781,203	712,231
<i>Add:</i>				
[REDACTED] expenses ⁽¹⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Changes in fair value in financial instruments issued to an investor ⁽²⁾	—	21,617	—	131,991
Adjusted net profit (non-IFRS measure)	520,088	1,070,826	781,203	864,383
Adjusted net profit margin (non-IFRS measure)	21.7%	21.0%	21.7%	20.3%

Notes:

- (1) [REDACTED] expenses relate to this [REDACTED] of the Company, which is one-off in nature and is not directly related to our operating activities.
- (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 our warrants issued to Zest Holdings in connection with the [REDACTED] 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 [REDACTED], 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 [REDACTED].

SUMMARY

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

	<u>As of December 31,</u> <u>2020</u>	<u>2021</u>	<u>As of September 30,</u> <u>2022</u> <i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Total non-current assets	829,729	2,330,116	3,427,800
Total current assets	<u>3,816,279</u>	<u>5,314,339</u>	<u>6,380,551</u>
Total assets	<u>4,646,008</u>	<u>7,644,455</u>	<u>9,808,351</u>
Bank and other borrowings	56,600	186,600	36,600
Lease liabilities	29,632	43,722	39,032
Financial instruments issued to an investor	–	8,756,882	10,452,805
Deferred tax liabilities	–	11,199	11,199
Total non-current liabilities	<u>86,232</u>	<u>8,998,403</u>	<u>10,539,636</u>
Trade payables	144,661	550,649	300,131
Other payables and accruals	1,971,055	3,533,762	3,261,069
Amounts due to related parties	–	198,135	–
Bank and other borrowings	895,500	710,000	–
Lease liabilities	14,897	25,340	30,614
Current taxation	404,199	442,222	13,010
Total current liabilities	<u>3,430,312</u>	<u>5,460,108</u>	<u>3,604,824</u>
Total liabilities	<u>3,516,544</u>	<u>14,458,511</u>	<u>14,144,460</u>
Net current assets/(liabilities)	<u>385,967</u>	<u>(145,769)</u>	<u>2,775,727</u>
Share capital	–	30	30
Reserves	1,129,464	(6,814,086)	(4,336,139)
Total equity/(total equity-deficit)	<u>1,129,464</u>	<u>(6,814,056)</u>	<u>(4,336,109)</u>

We recorded net current assets of RMB2,775.7 million as of September 30, 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 increase in inventories of RMB669.4 million due to our production expansion, and the decrease in bank and other borrowings of RMB710 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.

SUMMARY

We recorded total equity-deficit of RMB6,814.1 million and RMB4,336.1 million as of December 31, 2021 and September 30, 2022, respectively, primarily because we recorded financial instruments issued to an investor of RMB8,756.9 million and RMB10,452.8 million as liabilities, respectively.

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

	For the year ended December 31,		For the nine months ended September 30,	
	2020	2021	2021	2022
	<i>(unaudited)</i>			
	<i>(RMB in thousands)</i>			
Net cash generated from/(used in) operating activities	1,523,978	969,023	1,241,120	(1,029,356)
Net cash used in investing activities	(255,694)	(1,384,973)	(1,014,310)	(1,107,120)
Net cash (used in)/generate from financing activities	(1,068,294)	1,670,434	(272,918)	2,233,687
Net increase/(decrease) in cash and cash equivalents	199,990	1,254,484	(46,108)	97,211
Cash and cash equivalents at the beginning of the year/period	111,300	311,290	311,290	1,544,676
Effect of foreign exchange rate changes	–	(21,098)	–	30,221
Cash and cash equivalents at the end of the year/period	311,290	1,544,676	265,182	1,672,108

Net cash used in operating activities for the nine months ended September 30, 2022 was RMB1,029.4 million, which consisted primarily of profit before income tax expenses of RMB1,006.4 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 RMB132.0 million and (ii) adjustments for depreciation expenses of RMB99.0 million. The amount was further adjusted by changes in working capital, primarily including (i) the increase in inventories of RMB669.4 million, as we continued to expand our baijiu production, (ii) the decrease in other payables and accruals of RMB320.3 million, and (iii) the decrease in trade payables of RMB250.5 million.

SUMMARY

KEY FINANCIAL RATIOS

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

	For the year ended/ As of December 31,		For the nine months ended/As of September 30,	
	2020	2021	2021	2022
	<i>(unaudited)</i>			
	<i>(RMB in thousands, except percentages)</i>			
Gross profit margin	52.2%	53.5%	53.2%	55.2%
Net profit margin	21.7%	20.2%	21.7%	16.8%
Adjusted net profit margin (non-IFRS measure)	21.7%	21.0%	21.7%	20.3%
Return on assets ⁽¹⁾	13.6%	16.8%	N/A ⁽²⁾	10.9% ⁽³⁾

Notes:

- (1) Equals profit attributable to equity shareholders of the Company for the year/period divided by the average of the beginning and ending total assets for that year/period and multiplied by 100%.
- (2) The ratio is not available as balances of total assets, total debt or total equity/(total equity-deficit) is not available as of September 30, 2021.
- (3) Profit attributable to equity shareholders of the Company for the period is annualized (divided by 273 days and multiplied by 365 days).

RISK FACTORS

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

- Changes in consumer preferences, demand and spending patterns could materially and negatively affect our business and results of operations.
- Growth of our business will partially depend on the recognition of our brands, and any failure to maintain, protect and enhance our brands, including any negative publicity, would limit our ability to retain and expand our customer base, which would materially and adversely affect our business, financial condition and results of operations.
- The COVID-19 pandemic adversely affected, and may continue to affect, the demand for our products, our business operations and financial conditions.
- Our historical growth and profitability may not be indicative of our future financial performance, and we may not be able to sustain our revenue growth rate in the future. Our historical growth also makes it difficult to evaluate our future prospects and success.
- We operate in a highly competitive and rapidly evolving market in China.
- Our future success and growth potential are dependent on our ability to successfully implement our production capacity expansion plans.

SUMMARY

- We rely on our distribution network to promote and sell baijiu products and generate a vast majority of revenue from our distributors.
- Our business and financial performance may be adversely affected by the uncertainties around macro-economic conditions in China, or a downturn or any adverse developments in China’s baijiu industry.
- Any product quality issue could materially and adversely affect our results of operations.
- Changes to the pricing of our products could adversely affect our business, financial condition, results of operations and prospects.
- Changes in the availability and price of raw materials could have an adverse effect on our results of operations.

LEGAL PROCEEDINGS AND COMPLIANCE

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

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Zhenjiu Holding will hold approximately [REDACTED]% of the issued share capital of our Company. Zhenjiu Holding is wholly owned by Mr. Wu, our founder, chairman of the Board and a Controlling Shareholder. Accordingly, Zhenjiu Holding and Mr. Wu will be our Controlling Shareholders under the Listing Rules upon [REDACTED]. For more details, see “Relationship with the Controlling Shareholders”.

OUR [REDACTED] INVESTORS

[REDACTED] Investments in our Group were undertaken by ChinaNet and Zest Holdings, who are our [REDACTED] Investors. For details of background of the [REDACTED] Investors and the principal terms of the [REDACTED] Investments, see “History, Development and Corporate Structure – [REDACTED] Investments”.

[REDACTED]

SUMMARY

[REDACTED]

DIVIDENDS AND DIVIDEND POLICY

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

Our Group declared an aggregate of RMB1,886.1 million of distributions/dividends in 2021. After offsetting amounts due from related parties, we recorded dividends payables of RMB135.7 million and RMB146.1 million as of December 31, 2021 and September 30, 2022, respectively. The cash payment of such dividends payables as of September 30, 2022 is subject to and conditional upon the [REDACTED]. 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 [REDACTED] and Our Shares – We cannot assure you whether and when we will declare and pay dividends in the future.”

SUMMARY

USE OF [REDACTED]

We estimate that we will receive net [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] million, after deducting [REDACTED] commissions, fees and estimated expenses payable by us in connection with the [REDACTED], assuming no [REDACTED] is exercised and assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range stated in this document.

We intend to use the net [REDACTED] as follows (based on the mid-point of the [REDACTED] range stated in this document):

- approximately [REDACTED]%, or HK\$[REDACTED] million, will be used over the next five years to fund the construction and development of our production facilities, thereby expanding our baijiu production capacity progressively.
- approximately [REDACTED]%, or HK\$[REDACTED] million, will be used over the next five years in brand building and market promotion, with a goal to drive brand awareness and foster a growing loyal consumer base.
- approximately [REDACTED]%, or HK\$[REDACTED] million, will be used over the next five years to expand our sales channels, with a goal to continue to drive revenue growth.
- approximately [REDACTED]%, or HK\$[REDACTED] million, will be used over the next five years to automate and digitalize our business operations leveraging advanced technologies.
- the remaining approximately [REDACTED]%, or HK\$[REDACTED] million, will be used for working capital and general corporate purposes.

For further details, see “Future Plans and Use of [REDACTED].”

[REDACTED] EXPENSES

Our [REDACTED] expenses mainly include [REDACTED] fees and commissions and professional fees paid to legal, accounting and other advisors for their services rendered in relation to the [REDACTED] and the [REDACTED]. Assuming full payment of the discretionary incentive fee, the estimated total [REDACTED] expenses (based on the mid-point of the [REDACTED] Range and assuming that the [REDACTED] is not exercised) for the [REDACTED] are approximately HK\$[REDACTED] million, accounting for approximately of [REDACTED]% of our gross [REDACTED]. An estimated amount of HK\$[REDACTED] million for our [REDACTED] expenses, accounting for approximately [REDACTED]% of our gross [REDACTED], is expected to be expensed through the statement of profit or loss and the remaining amount of HK\$[REDACTED] million is expected to be recognized directly as a deduction from equity upon the [REDACTED]. During the Track Record Period, we incurred [REDACTED] of RMB[REDACTED] million and RMB[REDACTED] million in 2021 and the nine months ended September 30, 2022 recognized in our consolidated financial statements of profit or loss and other comprehensive income, respectively. Our Directors do not expect such expenses to have a material and adverse impact on our financial results for the year ending December 31, 2022.

SUMMARY

RECENT DEVELOPMENTS

In December 2022, we entered into state-owned construction land use right assignment agreements (國有建設用地使用權出讓合同) with the local governmental authorities, pursuant to which we acquired the land use right to a parcel of land located in Moutai town of Zunyi, Guizhou, with an aggregate area of 96,775 square meters. In January 2023, we entered into a state-owned construction land use right assignment agreement (國有建設用地使用權出讓合同) with the local governmental authorities, pursuant to which we acquired the land use right to a parcel of land located in Lidu, Jiangxi, with an aggregate area of 373,570 square meters. Such lands will be used to expand our production facilities. See “Business – Production Facilities – Planned Production Capacity Expansion.”

The Impacts of and Our Responses to COVID-19

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

Another round of COVID-19 outbreaks throughout October and November 2022 resulted in multiple cities across China under lock-down. Since late 2022 and early 2023, China has experienced a surge in COVID-19 confirmed cases. The rapid spread of COVID-19 virus in a relatively short period of time has compelled people to stay at home and reduce banquets and social gatherings, which further caused temporary reductions in baijiu consumption, according to Frost & Sullivan. 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.

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

NO MATERIAL ADVERSE CHANGE

Save as otherwise disclosed in this document, our Directors confirm that, as of the date of this document, there has been no material adverse change in our financial, operational or trading position, indebtedness, contingent liabilities or prospects of our Group since September 30, 2022, the end of the period reported in the Accountants’ Report set out in Appendix I to this document, and there is no event since September 30, 2022 that would materially affect the information as set out in the Accountants’ Report in Appendix I to this document.