

## FINANCIAL INFORMATION

*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 document, 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 and 2021 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 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.

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.

### 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

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critical accounting estimates. It also requires management to make judgements, estimates and assumptions in the process of applying our Group’s accounting policies. Judgements made by management in the application of IFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3 to the Accountants’ Report included in Appendix I to this document.

### 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 RMB603.3 billion in 2021 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 RMB215.2 billion in 2021 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 reach RMB321.7 billion in 2026, representing a CAGR of 12.2% from 2021 to 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

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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,				For the nine months ended September 30,			
	2020		2021		2021		2022	
	Revenue	Gross margin (%)	Revenue	Gross margin (%)	Revenue	Gross margin (%)	Revenue	Gross margin (%)
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except for percentages)</i>							
Deluxe .....	378,375	67.7	908,090	67.3	618,371	68.1	1,022,964	64.7
Premium .....	862,712	66.8	1,933,552	66.0	1,408,034	66.9	1,724,367	63.7
Mid-range and below .....	1,157,828	36.3	2,259,951	37.3	1,567,184	35.0	1,501,865	39.1
<b>Total .....</b>	<b><u>2,398,915</u></b>	<b><u>52.2</u></b>	<b><u>5,101,593</u></b>	<b><u>53.5</u></b>	<b><u>3,593,589</u></b>	<b><u>53.2</u></b>	<b><u>4,249,196</u></b>	<b><u>55.2</u></b>

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 have increased steadily. Revenue generated from our premium baijiu products increased from RMB862.7 million in 2020 to RMB1,933.6 million in 2021, and from RMB1,408.0 million in the nine months ended September 30, 2021 to RMB1,724.4 million in the same period 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 from RMB618.4 million in the nine months ended September 30, 2021 to RMB1,023.0 million in the same period in 2022. In the nine months ended September 30, 2022, revenue generated from our premium baijiu products and deluxe baijiu products, as a percentage of our total revenue, has grown to reach 40.6% and 24.1%, respectively. Accordingly, our overall gross margin has improved throughout the Track Record Period, growing from 52.2% in 2020 to 53.5% in 2021, and from 53.2% in the nine months ended September 30, 2021 to 55.2% in the same period 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 the nine months ended September 30, 2022, our base liquor production volume amounted to 8,959 tons, 11,058 tons and 24,474 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.

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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, 4,965 tons of sauce aroma base liquor in 2020, 2021 and the nine months ended September 30, 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.

Costs of sales amounted to RMB1,145.8 million, RMB2,371.8 million, RMB1,682.9 million and RMB1,902.7 million in 2020, 2021 and the nine months ended September 30, 2021 and 2022, respectively. Our cost of sales as percentages of total revenue decreased from 47.8% in 2020 to 46.5% in 2021, and from 46.8% in the nine months ended September 30, 2021 to 44.8% in the same period of 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

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generated from our distributors accounted for 88.1%, 88.8%, 89.7% and 88.3% in 2020, 2021, the nine months ended September 30, 2021 and 2022 of our total revenue, 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, sales 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 and RMB1,020.5 million in 2020 and 2021, and RMB681.3 million and RMB983.1 million in the nine months ended September 30, 2021 and 2022, respectively, representing 16.8%, 20.0%, 19.0% and 23.1% 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,

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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 the nine months ended September 30, 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.

As a result, our revenue and profit growth slowed in the nine months ended September 30, 2022. 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. 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. 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



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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.

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 Related 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 document.

#### **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, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any volume rebates.

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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.

### **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.



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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:

	<i>Estimated useful lives</i>
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.

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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 realize 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.

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### **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 document. 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 document. 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

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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.

### 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,				For the nine months ended September 30,			
	2020		2021		2021		2022	
	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue	RMB	% of Revenue
	<i>(unaudited)</i>							
	<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)
<b>Gross profit</b>	<b>1,253,121</b>	<b>52.2</b>	<b>2,729,746</b>	<b>53.5</b>	<b>1,910,719</b>	<b>53.2</b>	<b>2,346,531</b>	<b>55.2</b>
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)
<b>Profit from operations</b>	<b>741,302</b>	<b>30.9</b>	<b>1,466,570</b>	<b>28.7</b>	<b>1,074,865</b>	<b>29.9</b>	<b>1,166,324</b>	<b>27.4</b>
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)
<b>Profit before taxation</b>	<b>701,559</b>	<b>29.2</b>	<b>1,408,533</b>	<b>27.6</b>	<b>1,047,676</b>	<b>29.2</b>	<b>1,006,417</b>	<b>23.7</b>
Income tax	(181,471)	(7.6)	(376,336)	(7.4)	(266,473)	(7.4)	(294,186)	(6.9)
<b>Profit attributable to equity shareholders of the Company for the year/period</b>	<b>520,088</b>	<b>21.7</b>	<b>1,032,197</b>	<b>20.2</b>	<b>781,203</b>	<b>21.7</b>	<b>712,231</b>	<b>16.8</b>

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### 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 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,						For the nine months ended September 30,					
	2020			2021			2021			2022		
	Sales Volume (tons)	Revenue (RMB in thousands)	% of Total Revenue	Sales Volume (tons)	Revenue (RMB in thousands)	% of Total Revenue	Sales Volume (tons)	Revenue (RMB in thousands)	% of Total Revenue	Sales Volume (tons)	Revenue (RMB in thousands)	% of Total Revenue
<i>Zhen Jiu</i> . . . . .	6,941	1,345,546	56.1	14,761	3,487,573	68.4	10,849	2,364,310	65.8	8,952	2,764,041	65.0
<i>Li Du</i> . . . . .	1,687	359,225	15.0	2,750	649,954	12.7	2,198	494,775	13.8	1,470	634,700	14.9
<i>Xiang Jiao</i> . . . . .	589	394,879	16.5	876	605,569	11.9	671	470,348	13.1	902	521,284	12.3
<i>Kai Kou</i> <i>Xiao</i> . . . . .	1,920	172,033	7.1	2,484	256,579	5.0	1,762	191,792	5.3	2,335	258,361	6.1
Others* . . . . .	8,305	127,232	5.3	5,427	101,918	2.0	3,760	72,364	2.0	3,681	70,810	1.7
<b>Total</b> . . . . .	<b>19,443</b>	<b>2,398,915</b>	<b>100.0</b>	<b>26,299</b>	<b>5,101,593</b>	<b>100.0</b>	<b>19,239</b>	<b>3,593,589</b>	<b>100.0</b>	<b>17,339</b>	<b>4,249,196</b>	<b>100.0</b>

\* Note: consisting primarily of sales volume and revenue generated from the sales 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 the nine months ended September 30, 2021 and 2022, we derived 56.1%, 68.4%, 65.8% and 65.0% of our total revenue from *Zhen Jiu*, respectively.

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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,				For the nine months ended September 30,			
	2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(unaudited)</i>							
	<i>(in thousands, except percentages)</i>							
Deluxe .....	378,375	15.8	908,090	17.8	618,371	17.2	1,022,964	24.1
Premium .....	862,712	36.0	1,933,552	37.9	1,408,034	39.2	1,724,367	40.6
Mid-range and below .....	1,157,828	48.2	2,259,951	44.3	1,567,184	43.6	1,501,865	35.3
<b>Total .....</b>	<b>2,398,915</b>	<b>100.0</b>	<b>5,101,593</b>	<b>100.0</b>	<b>3,593,589</b>	<b>100.0</b>	<b>4,249,196</b>	<b>100.0</b>

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,				For the nine months ended September 30,			
	2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except percentages)</i>							
Cost of production materials ...	496,366	43.3	989,474	41.7	714,278	42.4	800,381	42.1
Cost of packaging materials ...	245,443	21.4	545,852	23.0	373,865	22.2	371,312	19.5
Tax and surcharges .....	377,969	33.0	786,611	33.2	559,444	33.2	687,735	36.1
Transportation cost .....	26,016	2.3	49,910	2.1	35,283	2.2	43,236	2.3
<b>Total .....</b>	<b>1,145,794</b>	<b>100.0</b>	<b>2,371,847</b>	<b>100.0</b>	<b>1,682,870</b>	<b>100.0</b>	<b>1,902,665</b>	<b>100.0</b>

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



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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.

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%
	<i>(RMB in thousands)</i>					
<b><i>Hypothetical changes in cost of sales</i></b>						
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
Nine months ended September 30,						
2021 . . . . .	(84,144)	(168,287)	(252,431)	84,144	168,287	252,431
Nine months ended September 30,						
2022 . . . . .	(95,133)	(190,267)	(285,400)	95,133	190,267	285,400
<b><i>Changes in profit before taxation</i></b>						
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)
Nine months ended September 30,						
2021 . . . . .	84,144	168,287	252,431	(84,144)	(168,287)	(252,431)
Nine months ended September 30,						
2022 . . . . .	95,133	190,267	285,400	(95,133)	(190,267)	(285,400)

### Gross Profit and Gross Margin

As a result of the foregoing, we recorded gross profit of RMB1,253.1 million, RMB2,729.7 million, RMB1,910.7 million and RMB2,346.5 million in 2020, 2021 and the nine months ended September 30, 2021 and 2022, respectively, representing gross margin of 52.2%, 53.5%, 53.2% and 55.2% during these 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.

	<b>For the year ended December 31,</b>				<b>For the nine months ended September 30,</b>			
	<b>2020</b>		<b>2021</b>		<b>2021</b>		<b>2022</b>	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except percentages)</i>							
<i>Zhen Jiu</i> . . . . .	708,302	52.6	1,800,011	51.6	1,201,727	50.8	1,512,137	54.7
<i>Li Du</i> . . . . .	245,865	68.4	434,064	66.8	328,321	66.4	421,360	66.4
<i>Xiang Jiao</i> . . . . .	232,557	58.9	388,497	64.2	303,586	64.5	307,451	59.0
<i>Kai Kou Xiao</i> . . . . .	63,351	36.8	102,032	39.8	75,362	39.3	102,332	39.6
Others* . . . . .	3,046	2.4	5,142	5.1	1,723	2.4	3,251	4.6
<b>Total</b> . . . . .	<b>1,253,121</b>	<b>52.2</b>	<b>2,729,746</b>	<b>53.5</b>	<b>1,910,719</b>	<b>53.2</b>	<b>2,346,531</b>	<b>55.2</b>

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

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,				For the nine months ended September 30,			
	2020		2021		2021		2022	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except percentages)</i>							
Deluxe .....	256,287	67.7	610,751	67.3	420,841	68.1	661,616	64.7
Premium .....	576,232	66.8	1,277,018	66.0	942,119	66.9	1,097,743	63.7
Mid-range and below .....	420,602	36.3	841,977	37.3	547,759	35.0	587,172	39.1
<b>Total .....</b>	<b><u>1,253,121</u></b>	<b><u>52.2</u></b>	<b><u>2,729,746</u></b>	<b><u>53.5</u></b>	<b><u>1,910,719</u></b>	<b><u>53.2</u></b>	<b><u>2,346,531</u></b>	<b><u>55.2</u></b>

### 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,				For the nine months ended September 30,			
	2020		2021		2021		2022	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except percentages)</i>							
Advertisement expenses .....	241,708	60.0	669,215	65.6	428,907	63.0	486,858	49.5
Employee compensation .....	125,356	31.1	280,717	27.5	208,577	30.6	438,089	44.6
Travel and office expenses .....	27,836	6.9	46,285	4.5	30,272	4.4	30,697	3.1
Others .....	7,973	2.0	24,293	2.4	13,542	2.0	27,495	2.8
<b>Total .....</b>	<b><u>402,873</u></b>	<b><u>100.0</u></b>	<b><u>1,020,510</u></b>	<b><u>100.0</u></b>	<b><u>681,298</u></b>	<b><u>100.0</u></b>	<b><u>983,139</u></b>	<b><u>100.0</u></b>

### 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

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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) [REDACTED] expenses relating to the [REDACTED], 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				For the nine months ended			
	December 31,				September 30,			
	2020		2021		2021		2022	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(unaudited)</i>							
	<i>(RMB in thousands, except percentages)</i>							
Employee compensation . . . . .	87,757	55.6	162,246	56.1	112,732	60.0	127,151	48.8
Office and maintenance expenses . . . . .	26,368	16.7	43,898	15.2	29,269	15.6	28,928	11.1
Depreciation and amortization . . . . .	20,556	13.0	23,067	8.0	13,674	7.3	32,066	12.3
Professional service fees . . . . .	1,612	1.0	8,559	3.0	2,789	1.5	15,515	6.0
[REDACTED] expenses . . . . .	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others . . . . .	21,613	13.7	34,562	11.8	29,513	15.6	36,785	14.1
<b>Total . . . . .</b>	<b>[REDACTED]</b>	<b>100.0</b>	<b>[REDACTED]</b>	<b>100.0</b>	<b>[REDACTED]</b>	<b>100.0</b>	<b>[REDACTED]</b>	<b>100.0</b>

### 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.

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The following table sets forth a breakdown of our other income 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>	
Government grants . . . . .	22,663	21,189	15,989	9,049
Interest income . . . . .	2,783	12,705	6,374	28,363
Net income from sales of by-products and semi- finished products . . . . .	24,680	15,559	12,670	18,789
Fees from distributors for breach of contracts . . . . .	267	4,111	3,276	7,701
Net loss on disposal of property, plant and equipment . . . . .	(1,599)	(6,948)	(6,900)	(749)
Others . . . . .	1,474	1,044	3,833	3,823
<b>Total . . . . .</b>	<b>50,268</b>	<b>47,660</b>	<b>35,242</b>	<b>66,976</b>

### 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, RMB27.2 million and RMB27.9 million in 2020, 2021 and the nine months ended September 30, 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 [REDACTED] 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 [REDACTED], 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 [REDACTED], 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 document, and the section headed “History, Reorganization and Corporate Structure – [REDACTED] Investments.”

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### Income Tax

We recorded income tax expense of RMB181.5 million, RMB376.3 million, RMB266.5 million and RMB294.2 million in 2020, 2021 and the nine months ended September 30, 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/period

As a result of the foregoing, our profit for the year amounted to RMB520.1 million and RMB1,032.2 million in 2020 and 2021, respectively, and our profit for the period amounted to RMB781.2 million and RMB712.2 million for the nine months ended September 30, 2021 and 2022, respectively.

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### 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 indicative of our operating performance. We believe that these measures provide useful information to [REDACTED] 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>			
<b>Profit attributable to equity shareholders of the Company for the year/period</b> .....	<b>520,088</b>	<b>1,032,197</b>	<b>781,203</b>	<b>712,231</b>
<b>Add:</b>				
[REDACTED] expenses <sup>(1)</sup> .....	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Changes in fair value in financial instruments issued to an [REDACTED] <sup>(2)</sup> .....	—	21,617	—	131,991
<b>Adjusted net profit (non-IFRS measure)</b> .....	<b>520,088</b>	<b>1,070,826</b>	<b>781,203</b>	<b>864,383</b>
<b>Adjusted net profit margin (non-IFRS measure)</b> .....	<b>21.7%</b>	<b>21.0%</b>	<b>21.7%</b>	<b>20.3%</b>

*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 [REDACTED] arises from the changes in the fair value of our Series A Preferred Shares and 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].



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### PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

##### *Revenue*

Despite the impacts from the COVID-19 pandemic, our revenue increased by 18.2% from RMB3,593.6 million in the nine months ended September 30, 2021 to RMB4,249.2 million in the same period in 2022, attributable primarily to our expanded sales network, and increasing brand recognition among consumers across China.

##### *Revenue by Baijiu Brand*

In the nine months ended September 30, 2022, all of our four major baijiu brands experienced revenue growths as compared to the same period in 2021.

- Revenue generated from *Zhen Jiu* increased by 16.9% from RMB2,364.3 million in the nine months ended September 30, 2021 to RMB2,764.0 million in the nine months ended September 30, 2022, primarily because we sold an increasing amount of premium and deluxe products.
- Revenue generated from *Li Du* increased by 28.3% from RMB494.8 million in the nine months ended September 30, 2021 to RMB634.7 million in the nine months ended September 30, 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 blockbuster 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 10.8% from RMB470.3 million in the nine months ended September 30, 2021 to RMB521.3 million in the nine months ended September 30, 2022, primarily due to the rising sales volume as a result of increasing market acceptance and expanded sales and distribution network. In particular, our blockbuster 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 34.7% from RMB191.8 million in the nine months ended September 30, 2021 to RMB258.4 million in the nine months ended September 30, 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

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premium baijiu products increased by 22.5% from RMB1,408.0 million in the nine months ended September 30, 2021 to RMB1,724.4 million in the same period in 2022. As percentages of total revenue, our premium products' revenue increased from 39.2% in the nine months ended September 30, 2021 to 40.6% in the same period in 2022. Revenue generated from our deluxe baijiu products increased by 65.4% from RMB618.4 million in the nine months ended September 30, 2021 to RMB1,023.0 million in the same period in 2022. As percentages of total revenue, our deluxe product revenue increased from 17.2% in the nine months ended September 30, 2021 to 24.1% in the same period in 2022. The increases in revenue generated from our premium and deluxe baijiu products were primarily driven by our blockbuster products, which demonstrated our increasing brand awareness and market acceptance. Revenue generated from our mid-range and below baijiu products remained relatively stable at RMB1,567.2 million and RMB1,501.9 million in the nine months ended September 30, 2021 and 2022, respectively. Revenue generated from our mid-range and below baijiu products accounted for 43.6% and 35.3% of our total revenue in the nine months ended September 30, 2021 and 2022, respectively.

### *Cost of Sales*

Our cost of sales increased by 13.1% from RMB1,682.9 million in the nine months ended September 30, 2021 to RMB1,902.7 million in the nine months ended September 30, 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 RMB128.3 million and cost of production materials of RMB86.1 million, in line with our revenue growth. Our cost of sales accounted for 46.8% and 44.8% of our total revenue in the nine months ended September 30, 2021 and 2022, respectively.

### *Gross Profit and Gross Margin*

As a result of the foregoing, our gross profit increased by 22.8% from RMB1,910.7 million in the nine months ended September 30, 2021 to RMB2,346.5 million for the same period in 2022. Our gross margin increased from 53.2% in the nine months ended September 30, 2021 to 55.2% in the same period 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 50.8% in the nine months ended September 30, 2021 to 54.7% for the same period 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 stayed stable at 66.4% in the nine months ended September 30, 2021 and the same period in 2022. In contrast, gross margin for *Xiang Jiao* products decreased from 64.5% in the nine months ended September 30, 2021 to 59.0% in the same period 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 39.3% and 39.6% in the nine months ended September 30, 2021 and 2022, respectively.

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### *Gross Margin by Price Range*

Gross margin for our deluxe baijiu products decreased from 68.1% in the nine months ended September 30, 2021 to 64.7% in the same period in 2022, and gross margin for our premium baijiu products decreased from 66.9% in the nine months ended September 30, 2021 to 63.7% in the same period 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 the nine months ended September 30, 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 35.0% in the nine months ended September 30, 2021 to 39.1% in the same period 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 44.3% from RMB681.3 million in the nine months ended September 30, 2021 to RMB983.1 million in the same period 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 (i) employee compensation of RMB229.5 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, and (ii) advertisement expenses of RMB58.0 million to enhance our brand awareness. Our selling and distribution expenses accounted for 19.0% and 23.1% of our total revenue in the nine months ended September 30, 2021 and 2022, respectively.

### *Administrative Expenses*

In line with our business expansion, our administrative expenses increased by 38.6% from RMB188.0 million in the nine months ended September 30, 2021 to RMB260.6 million in the same period in 2022. Specifically, the increase was primarily due to the increases in (i) depreciation and amortization of RMB18.4 million, (ii) employee compensation of RMB14.4 million, attributable primarily to the rising administrative staff headcounts to support our business expansion, and (iii) [REDACTED] expenses of RMB[REDACTED] million in connection with the [REDACTED]. Our administrative expenses accounted for 5.2% and 6.1% of our total revenue in the nine months ended September 30, 2021 and 2022, respectively.

### *Other Income*

Our other income increased from RMB35.2 million in the nine months ended September 30, 2021 to RMB67.0 million in the same period in 2022, primarily due to the increase in (i) interest income of RMB22.0 million from our increased bank deposit, and (ii) net income from sales of by-products and semi-finished products of RMB6.1 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 RMB6.9 million as such grants we received from local governments in China were one-off in nature and may therefore fluctuate from time to time.

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### *Profit from Operations*

As a result of the foregoing, our profit from operations amounted to RMB1,166.3 million in the nine months ended September 30, 2022, as compared to that of RMB1,074.9 million in the same period in 2021.

### *Finance Costs*

Our finance costs increased from RMB27.2 million in the nine months ended September 30, 2021 to RMB27.9 million in the same period in 2022, primarily due to the increase in interest on lease liabilities of RMB0.8 million.

### *Changes in Fair Value in Financial Instruments Issued to An Investor*

In the nine months ended September 30, 2022, we recorded a loss of RMB132.0 million in changes in fair value in financial instruments issued to an investor, as compared to nil during the same period 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 RMB1,047.7 million and RMB1,006.4 million for the nine months ended September 30, 2021 and 2022, respectively.

### *Income Tax*

Our income tax expenses increased from RMB266.5 million in the nine months ended September 30, 2021 to RMB294.2 million in the same period in 2022, primarily because the loss on the changes in fair value in financial instruments issued to an investors of RMB132.0 million that we recorded in the nine months ended September 30, 2022 were not tax deductible.

### *Profit for the Period*

As a result of the foregoing, we recorded profit of RMB781.2 million and RMB712.2 million for the nine months ended September 30, 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 Baijiu Industry – Market Size of China’s Baijiu Industry.”

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### *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 blockbuster 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 blockbuster 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 49.2% 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.

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### *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 blockbuster 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



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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) [REDACTED] expenses of RMB[REDACTED] million in connection with the [REDACTED]. 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 [REDACTED] received from our [REDACTED] 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 [REDACTED]*

We recorded a loss of RMB21.6 million in changes in fair value in financial instruments issued to an [REDACTED] in 2021, as compared to nil in 2020. The movement in changes in fair value in financial instruments issued to an [REDACTED] 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 in RMB520.1 million and RMB1,032.2 million for the years of 2020 and 2021, respectively.

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### 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 document.

	As of December 31,		As of September 30,
	2020	2021	2022
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Total non-current assets . . . . .	829,729	2,330,116	3,427,800
Total current assets . . . . .	3,816,279	5,314,339	6,380,551
<b>Total assets . . . . .</b>	<b>4,646,008</b>	<b>7,644,455</b>	<b>9,808,351</b>
Total non-current liabilities . . . . .	86,232	8,998,403	10,539,636
Total current liabilities . . . . .	3,430,312	5,460,108	3,604,824
<b>Total liabilities . . . . .</b>	<b>3,516,544</b>	<b>14,458,511</b>	<b>14,144,460</b>
<b>Net assets/(liabilities) . . . . .</b>	<b>1,129,464</b>	<b>(6,814,056)</b>	<b>(4,336,109)</b>
Share capital . . . . .	–	30	30
Reserves . . . . .	1,129,464	(6,814,086)	(4,336,139)
<b>Total equity/(total equity-deficit) . . . . .</b>	<b>1,129,464</b>	<b>(6,814,056)</b>	<b>(4,336,109)</b>

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,		As of September 30,	As of November 30,
	2020	2021	2022	2022
				<i>(unaudited)</i>
				<i>(RMB in thousands)</i>
<b>Current assets</b>				
Inventories . . . . .	1,736,924	3,649,323	4,318,766	4,884,423
Trade and bills receivables . . . . .	74,159	64,734	98,682	96,316
Prepayments, deposits and other receivables . . . . .	28,849	55,567	142,565	254,449
Income tax recoverable . . . . .	–	–	148,426	172,297
Amounts due from related parties . . . . .	1,664,999	–	–	–
Cash and cash equivalents . . . . .	311,348	1,544,715	1,672,112	1,252,013
<b>Total current assets . . . . .</b>	<b>3,816,279</b>	<b>5,314,339</b>	<b>6,380,551</b>	<b>6,659,497</b>

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	<u>As of December 31,</u>		<u>As of September 30,</u>	<u>As of November 30,</u>
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2022</u>
			<i>(unaudited)</i>	
			<i>(RMB in thousands)</i>	
<b>Current liabilities</b>				
Trade payables . . . . .	144,661	550,649	300,131	823,416
Other payables and accruals . . . . .	1,971,055	3,533,762	3,261,069	2,870,113
Amounts due to related parties . . .	–	198,135	–	–
Bank and other borrowings . . . . .	895,500	710,000	–	–
Lease liabilities . . . . .	14,897	25,340	30,614	17,623
Current taxation . . . . .	404,199	442,222	13,010	33,837
<b>Total current liabilities . . . . .</b>	<b><u>3,430,312</u></b>	<b><u>5,460,108</u></b>	<b><u>3,604,824</u></b>	<b><u>3,744,990</u></b>
<b>Net current assets/(liabilities) . .</b>	<b><u>385,967</u></b>	<b><u>(145,769)</u></b>	<b><u>2,775,727</u></b>	<b><u>2,914,507</u></b>

We recorded net current assets of RMB2,914.5 million as of November 30, 2022, as compared to net current assets of RMB2,775.7 million as of September 30, 2022. The increase in net current assets was attributable to the increase in inventories of RMB565.7 million due to our production expansion.

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.

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 document.

### 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.

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The following table sets forth a summary of our inventory balances as of the dates indicated.

	As of December 31,		As of September 30,
	2020	2021	2022
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Raw materials and packaging materials . . . . .	97,209	262,236	371,128
Work-in-progress . . . . .	1,342,376	2,592,796	3,013,337
Finished goods . . . . .	297,339	794,291	934,301
<b>Total</b> . . . . .	<b>1,736,924</b>	<b>3,649,323</b>	<b>4,318,766</b>

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 18.3% to RMB4,318.8 million as of September 30, 2022 as we have continued to expand our baijiu production catering to the growing market demand for our products. 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,		For the nine months ended September 30,
	2020	2021	2022
Inventories turnover days <sup>(1)</sup> . . . . .	517.0	414.4	571.6

*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, and the number of days for the nine months ended September 30 is 273 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 571.6 days in the nine months ended September 30, 2022, which was primarily due to the significant increase of our inventories of work-in-progress in line with our production capacity expansion.

As of November 30, 2022, RMB1,470.6 million, or 34.1% of our inventories outstanding as of September 30, 2022 had been sold or utilized.

### Trade and Bills Receivables

Trade and bills receivables represent outstanding amounts due from a small number of customers, including large online stores such as Tmall and JD.com, to which we granted credit terms, and bills

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receivables represent bank acceptance notes received from such customers. Our trade and bills receivables are generally due for settlement within nine months 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 RMB98.7 million as of September 30, 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.

	<b>As of December 31,</b>		<b>As of September 30,</b>
	<b>2020</b>	<b>2021</b>	<b>2022</b>
			<i>(unaudited)</i>
	<i>(RMB in thousands)</i>		
Less than 3 months . . . . .	37,898	45,785	67,732
More than 3 months but less than 6 months . . . . .	11,163	4,228	13,526
More than 6 months but less than 12 months . . . . .	3,719	4,157	9,636
More than 12 months . . . . .	765	2,131	—
	<b>53,545</b>	<b>56,301</b>	<b>90,894</b>

The following table sets forth the turnover days of our trade and bills receivables for the periods indicated.

	<b>For the year ended December 31,</b>		<b>For the nine months ended September 30,</b>
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Trade and bills receivables turnover days <sup>(1)</sup> . . . . .	9.7	5.0	5.2

*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, and the number of days for the nine months ended September 30 is 273 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 remained relatively stable at 5.2 days in the nine months ended September 30, 2022.

As of November 30, 2022, RMB39.3 million, or 39.5% of our trade and bill receivables outstanding as of September 30, 2022 had been subsequently collected.

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### 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 [REDACTED], (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,		As of
	2020	2021	September 30, 2022
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Advances to staff . . . . .	2,245	3,577	5,888
Deposits paid to suppliers . . . . .	2,899	4,059	9,761
Deposits paid to lessors . . . . .	1,439	3,376	3,731
Others . . . . .	3,218	489	1,411
Financial assets measured at amortized cost . . . . .	9,801	11,501	20,791
Prepayments for purchase of raw materials . . . . .	2,680	6,081	20,616
Prepayments for operating expenses . . . . .	15,903	29,169	5,306
Prepayments for costs incurred in connection with the [REDACTED] . . . . .	–	3,002	7,160
Value-added tax recoverable . . . . .	–	–	82,670
Others . . . . .	465	5,814	6,022
Subtotal . . . . .	<u>19,048</u>	<u>44,066</u>	<u>121,774</u>
<b>Total . . . . .</b>	<b><u>28,849</u></b>	<b><u>55,567</u></b>	<b><u>142,565</u></b>

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 RMB142.6 million as of September 30, 2022, mainly due to the increase in value-added tax recoverable of RMB82.7 million primarily associated with the construction of our production facilities and baijiu production during the period.

### 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



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RMB1,665.0 million, nil and nil as of December 31, 2020, 2021 and September 30, 2022, respectively. The advances were fully settled in the fourth quarter of 2021.

### Cash and Cash Equivalents

During the Track Record Period, we had cash and cash equivalents of RMB311.3 million, RMB1,544.7 million and RMB1,672.1 million as of December 31, 2020, 2021 and September 30, 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,	As of
	2020	September 30,
	2021	2022
	<i>(unaudited)</i>	
	<i>(RMB in thousands)</i>	
Plant and buildings . . . . .	376,641	1,214,629
Construction in progress . . . . .	142,073	685,232
Right-of-use assets . . . . .	227,019	1,215,747
Machine and equipment . . . . .	63,295	233,709
Office equipment and others . . . . .	19,635	38,916
<b>Total . . . . .</b>	<b>828,663</b>	<b>3,388,233</b>

The carrying amount of our property, plant and equipment amounted to RMB828.7 million, RMB2,328.8 million and RMB3,388.2 million as of December 31, 2020, 2021 and September 30, 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.

### 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, attributable primarily to our increased inventory level to support our production expansion, catering to growing market demand for our baijiu products. Our trade payables decreased from RMB550.6 million as of December 31, 2021 to RMB300.1 million as of September 30, 2022 primarily due to major settlement incurred during this period.

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The following table sets forth the aging analysis of our trade payables as of the dates indicated.

	<b>As of</b>		<b>As of</b>
	<b>December 31,</b>	<b>2021</b>	<b>September 30,</b>
	<b>2020</b>	<b>2021</b>	<b>2022</b>
			<i>(unaudited)</i>
	<i>(RMB in thousands)</i>		
Within 1 years .....	139,911	545,373	292,220
1 to 2 years .....	2,662	3,368	7,760
2 to 3 years .....	2,088	1,908	151
	<b><u>144,661</u></b>	<b><u>550,649</u></b>	<b><u>300,131</u></b>

The following table sets forth our trade payables turnover days for the periods indicated.

	<b>For the year ended</b>		<b>For the nine</b>
	<b>December 31,</b>	<b>2021</b>	<b>months ended</b>
	<b>2020</b>	<b>2021</b>	<b>September 30,</b>
			<b>2022</b>
Trade payables turnover days <sup>(1)</sup> .....	40.6	53.5	61.0

*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, and the number of days for the nine months ended September 30 is 273 days.

Our trade payables turnover days increased from 40.6 days in 2020 to 53.5 days in 2021 and further to 61.0 days in the nine months ended September 30, 2022, primarily because we substantially increased our inventory level at the year end in 2021 in response to the then customers’ demands.

As of November 30, 2022, RMB237.1 million, or 79.0% of our trade payables outstanding as of September 30, 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) volume rebates accruals 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 [REDACTED], (vi) distributions/dividends payable, representing the distributions and dividends that were declared by us but remained unpaid, (vii) accrued advertising expenses, (viii) receipts in advance from customers, mainly representing performance deposits we received from distributors pursuant to our distribution arrangements, and (ix) others.

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The following table sets forth our other payables and accruals as of the dates indicated.

	As of December 31,		As of September 30,
	2020	2021	2022
			<i>(unaudited)</i>
			<i>(RMB in thousands)</i>
Other taxes payables . . . . .	559,697	312,696	79,455
Payables for staff related costs . . . . .	53,007	137,771	164,031
Volume rebates accruals . . . . .	367,704	870,434	823,226
Payables for construction and purchase of property, plant and equipment . . . . .	32,693	180,720	193,199
Payables for costs relating to the [REDACTED] . . .	–	3,774	5,327
Distributions/dividends payable . . . . .	–	135,736	146,114
Accrued advertising expenses . . . . .	7,740	43,815	85,472
Others . . . . .	26,673	31,419	30,409
Financial liabilities measured at amortized cost . . . .	1,047,514	1,716,365	1,527,233
Receipts in advance from customers . . . . .	923,541	1,817,397	1,733,836
	<b><u>1,971,055</u></b>	<b><u>3,533,762</u></b>	<b><u>3,261,069</u></b>

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 RMB3,261.1 million as of September 30, 2022, primarily due to the decrease in tax payables and accruals.

### 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 and 2021 and September 30, 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 [REDACTED]

Our financial instruments issued to an [REDACTED] primarily represent the Series A Preferred Shares and warrants issued to Zest Holdings in connection with the [REDACTED] 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 [REDACTED] is not consummated within a certain period. As of December 31, 2020, 2021 and September 30, 2022, we recorded financial instruments issued to an [REDACTED] of nil, RMB8,756.9 million and RMB10,452.8 million, respectively. Upon the [REDACTED], all such financial instruments will be converted into ordinary shares, and accordingly, such liability will be derecognized and transferred to equity.

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For details, see “– Indebtedness – Financial Instruments Issued to An [REDACTED],” “History, Reorganization and Corporate Structure – [REDACTED] Investments” and Note 23 to the Accountants’ Report in Appendix I to this document.

### 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 [REDACTED], we intend to finance our future capital requirements through cash generated from our business operations, the net [REDACTED] from the [REDACTED], 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 and cash equivalents of RMB311.3 million, RMB1,544.7 million and RMB1,672.1 million as of December 31, 2020, 2021 and September 30, 2022, respectively.

#### Cash Flow Analysis

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)/generated from financing activities	(1,068,294)	1,670,434	(272,918)	2,233,687
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>199,990</b>	<b>1,254,484</b>	<b>(46,108)</b>	<b>97,211</b>
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
<b>Cash and cash equivalents at the end of the year/period</b>	<b>311,290</b>	<b>1,544,676</b>	<b>265,182</b>	<b>1,672,108</b>

#### *Net Cash (Used in) / Generated from Operating Activities*

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 taxation 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 [REDACTED], which was related to our convertible redeemable preferred shares 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

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production, (ii) the decrease in other payables and accruals of RMB320.3 million, and (iii) the decrease in trade payables of RMB250.5 million.

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 RMB1,279.0 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 RMB40.0 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) / Generated from Investing Activities*

Net cash used in investing activities for the nine months ended September 30, 2022 was RMB1,107.1 million, which consisted primarily of (i) payments for purchase of property, plant and equipment of RMB924.9 million, (ii) payments for land use rights of RMB206.2 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, (ii) payments for land use rights of RMB756.8 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, (ii) payments for land use rights of RMB56.0 million.

### *Net Cash (Used in) / Generated from Financing Activities*

Net cash generated financing activities for the nine months ended September 30, 2022 was RMB2,233.7 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

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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 and (ii) net increase in amounts due from related parties of RMB1,031.0 million, partially offset by proceeds from bank and other borrowings of RMB885.5 million.

### INDEBTEDNESS

#### 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, September 30, 2022 and November 30, 2022, 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 document.

#### 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, RMB69.6 million and RMB61.8 million as of December 31, 2020 and 2021, September 30, 2022 and November 30, 2022, respectively.

#### Financial Instruments Issued to An [REDACTED]

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, Reorganization and Corporate Structure – [REDACTED] Investments.” In June 2022, all rights under the warrants were terminated, and upon the completion of the [REDACTED], 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 [REDACTED] 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 document. 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. Except as disclosed above, as of November 30, 2022, being the latest practicable date for determining our indebtedness, we did not have any outstanding

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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 November 30, 2022 and up to the Latest Practicable Date.

### CONTINGENT LIABILITIES

During the Track Record Period and up to November 30, 2022, we did not have any material contingent liabilities.

### 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,		For the nine months ended September 30,	
	2020	2021	2021	2022
	<i>(unaudited)</i>			
	<i>(RMB in thousands)</i>			
Purchase of fixed assets .....	201,863	635,833	390,300	924,860
Purchase of land use rights .....	56,045	756,821	627,273	206,198
<b>Total</b> .....	<b>257,908</b>	<b>1,392,654</b>	<b>1,017,573</b>	<b>1,131,058</b>

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 [REDACTED] – Use of [REDACTED].” 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 [REDACTED] from the [REDACTED].

### 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 and 2021 and September 30, 2022 but not provided for in our historical financial information were as follows:

	As of December 31,		As of September 30,
	2020	2021	2022
	<i>(unaudited)</i>		
	<i>(RMB in thousands)</i>		
Contracted for .....	1,020,965	550,880	879,984
Authorized but not contracted for .....	109,856	118,983	130,046
	<b>1,130,821</b>	<b>669,863</b>	<b>1,010,030</b>



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### KEY FINANCIAL RATIOS

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

	<b>For the nine</b>			
	<b>For the year ended/months ended/As of</b>			
	<b><u>As of December 31,</u></b>	<b><u>September 30,</u></b>		
	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>
	<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 <sup>(1)</sup> . . . . .	13.6%	16.8%	N/A <sup>(2)</sup>	10.9% <sup>(3)</sup>

*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).

### RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors are of the view that each of the related party transactions set out in Note 28 to the Accountants’ Report included in Appendix I to this document 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.

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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 September 30, 2022, 47%, 46% and 10% of the total trade receivables was due from the Group’s largest debtor and 62%, 61% and 22% 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 document.

### Liquidity Risk

We aim to maintain sufficient cash and cash equivalents. As of December 31, 2020, 2021 and September 30, 2022, we had net current assets of RMB386.0 million, net current liabilities of RMB145.8 million and net current assets of RMB2,775.7 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 document.

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.

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### 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 document

### 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. After offsetting amounts due from related parties, we recorded dividends payable of RMB135.7 million and RMB146.1 million as of December 31, 2021 and September 30, 2022, respectively. The cash payment of such dividends payable 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.”

### WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that, taking into account the financial resources available to the Group, including the estimated net [REDACTED] from the [REDACTED] 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 document.

### DISTRIBUTABLE RESERVES

As of September 30, 2022, the Company did not have any distributable reserves.

### [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]. Assuming

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full payment of the discretionary incentive fee, the estimated total [REDACTED] expenses (based on the mid-point of the [REDACTED] 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] expenses of RMB[REDACTED] million and RMB[REDACTED] million in 2021 and nine months ended September 30, 2022 recognized in our consolidated 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.

### NO MATERIAL ADVERSE CHANGE

Save as otherwise disclosed in this document, our Directors have confirmed that, up to the date of this document, there has been no material adverse change in our financial, operational or trading position, indebtedness, contingent liabilities or prospects since September 30, 2022, being the end date of our latest audited financial statements, and there has been no event since September 30, 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 as otherwise disclosed in this document, 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.

[REDACTED]

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[REDACTED]

**FINANCIAL INFORMATION**

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[REDACTED]