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

SOURCE AND RELIABILITY OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on China baijiu industry. The report prepared by Frost & Sullivan for us is referred to in the document as the Frost & Sullivan Report. A total fee of RMB1,105,000 was paid to Frost & Sullivan for the preparation of the report, which we believe reflects market rates for reports of this type. Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists.

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

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

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

OVERVIEW OF CHINA BAIJIU INDUSTRY

Overview of Baijiu

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

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

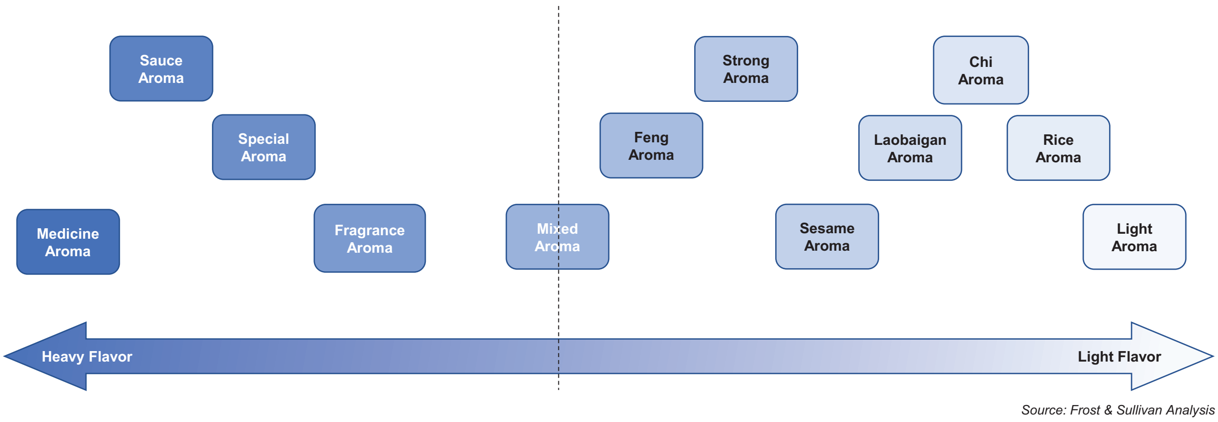
Baijiu is a colorless, clear liquor distilled from fermented sorghum, rice, or other grains with a diverse range of alcohol content. Serving as the fermentation starter, qu is the essential material for the saccharification of baijiu and the key to the baijiu-making process. Qu is composed of various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

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

Key Distinctions Among the Twelve Aroma Types of Baijiu

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

Baijiu Aroma Types Sorted by Flavors



Source: Standardization Administration of China, Frost & Sullivan Analysis

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

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

Baijiu Industry Value Chain Analysis

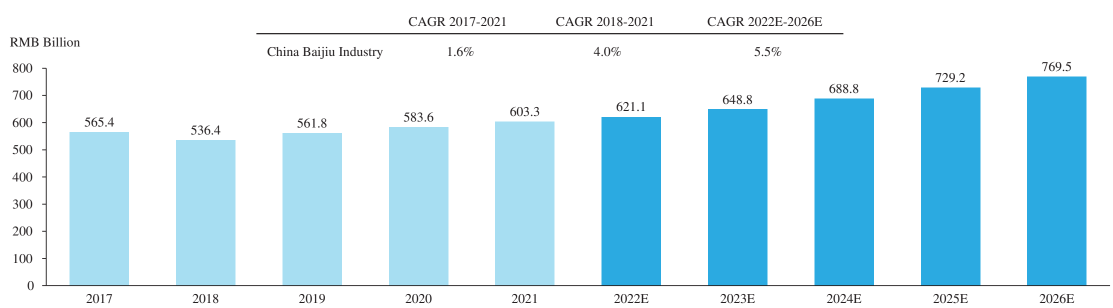
The upstream players of the baijiu industry value chain include raw material suppliers, packaging materials manufacturers etc. The midstream players include baijiu production companies and brand owners, and the downstream players include distributors and end consumers. Grains, such as sorghum, rice and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

Market Size of China's Baijiu Industry

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

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

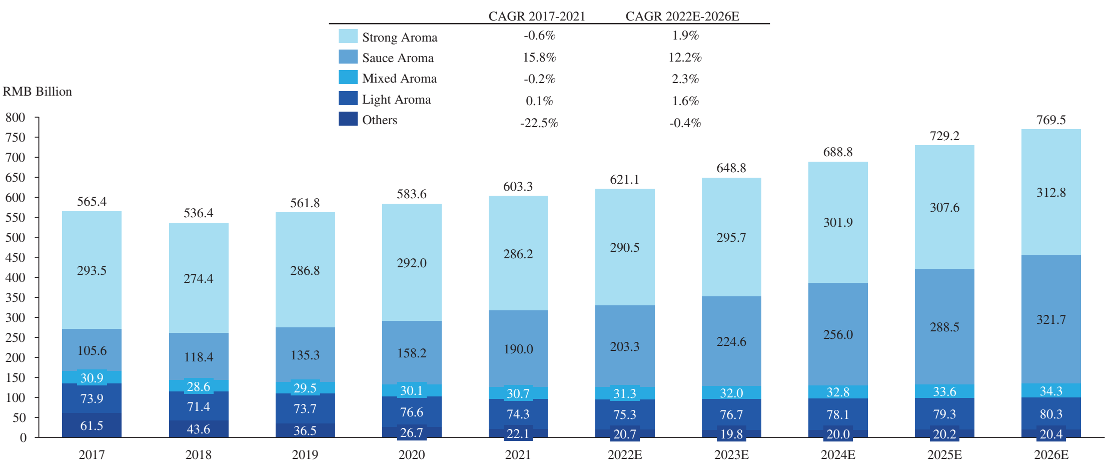
Market Size of China's Baijiu Industry by Revenue, 2017-2026E



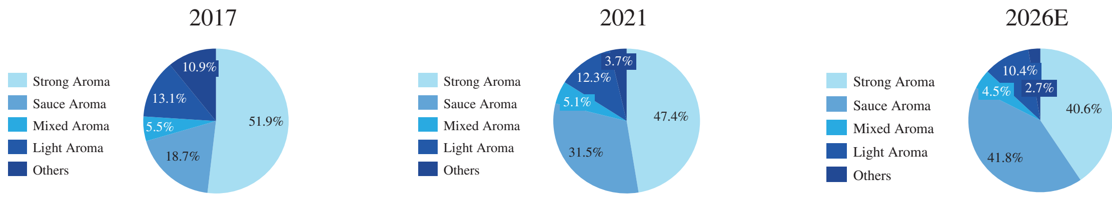
Source: National Bureau of Statistics of China, Frost & Sullivan Analysis

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

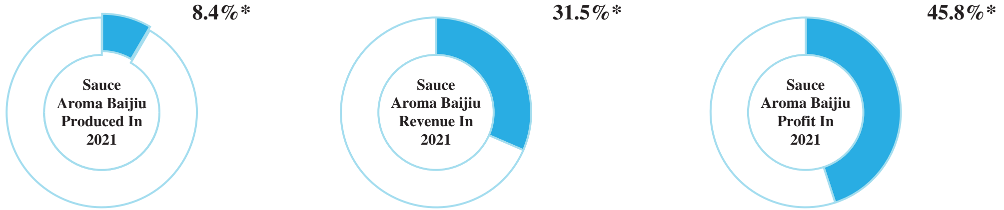
Market Size of China's Baijiu Industry by Aroma Type by Revenue, 2017-2026E



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



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



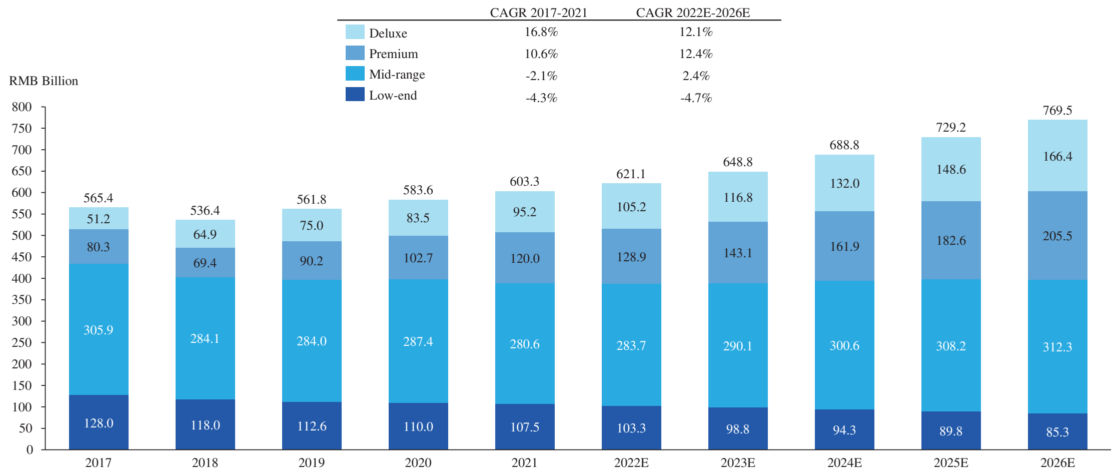
* As a percentage of the total China's baijiu industry

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

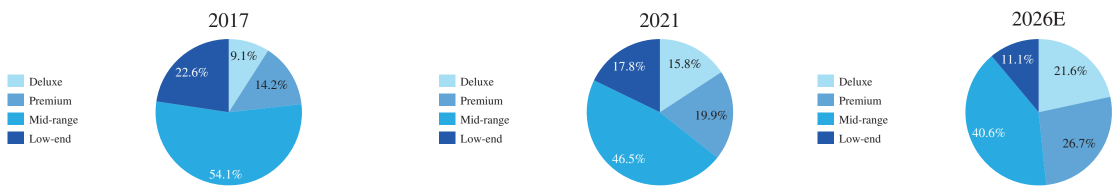
With respect to price range, mid-range baijiu accounted for a majority portion of China's baijiu industry from 2017 to 2021 due to its affordable price and high quality. In the meantime, deluxe baijiu has gained increasing market share during the past few years, driven by rising consumers' income level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

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

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



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



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

Market Drivers and Trends

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

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

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

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

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

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

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

(iv) Increasing Industry Consolidation

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

(v) Increasing Popularity of Sauce Aroma Baijiu

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

(vi) Multi-channel Marketing Strategies to Engage Customers

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

Entry Barriers

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

(i) Product Quality and Brand Recognition

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

(ii) Production Capacity

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

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

(iii) Capital Investment

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

(iv) Sales Channel

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

(v) Talents and Management Team

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

COMPETITIVE LANDSCAPE

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

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

Ranking	Company	Revenue (RMB Billion)	Market Share	2020-2021 YOY
1	Company A	112.7	18.7%	8.6%
2	Company B	61.7	10.2%	17.7%
3	Company C	24.4	4.1%	21.3%
4	Company D	20.4	3.4%	24.1%
5	Company E	19.8	3.3%	43.0%
6	Company F	15.6	2.6%	51.3%
7	Company G	15.4	2.6%	37.9%
8	Company H	12.8	2.1%	26.7%
9	Company I	12.3	2.0%	23.7%
10	Company J	10.2	1.7%	0.4%
11	Company K	9.1	1.5%	127.1%
12	Company L	8.0	1.3%	27.0%
13	Company M	6.4	1.1%	25.3%
14	ZJLD Group Inc	5.1	0.8%	112.7%
15	Company N	5.0	0.8%	25.4%

State-Owned Companies Private-Owned Companies

Source: Frost & Sullivan Analysis

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

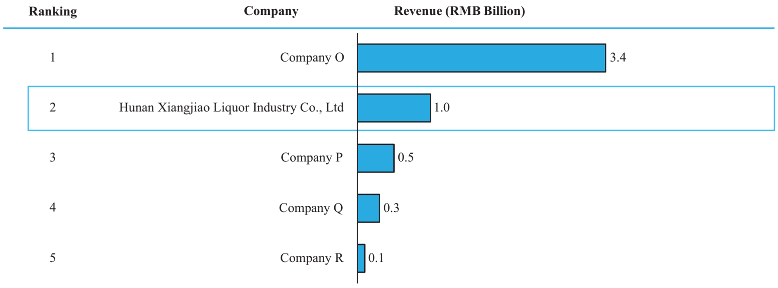
Top Five Privately-owned Companies of Baijiu Industry by Revenue (China), 2021

Ranking	Company	Revenue (RMB Billion)	Aroma Types	Price Range of Major Products	2020-2021 YOY
1	Company G	15.4	Strong	Mid-range	37.9%
2	Company I	12.3	Sauce, Strong, Mixed	Premium and Deluxe	23.7%
3	Company K	9.1	Sauce	Premium and Deluxe	127.1%
4	ZJLD Group Inc	5.1	Sauce, Mixed, Strong	Premium and Deluxe	112.7%
5	Company N	5.0	Mixed	Mid-range	25.4%

Source: Frost & Sullivan Analysis

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

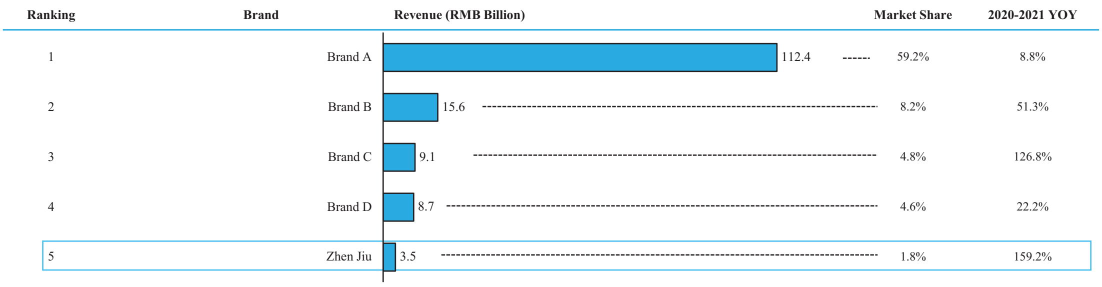
Top Five Hunan Baijiu Companies by Revenue, 2021



Source: Frost & Sullivan Analysis

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

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



Source: Frost & Sullivan Analysis

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

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

Ranking	Brand	Revenue (RMB Billion)	Market Share	2020-2021 YOY
1	Brand E	5.0	16.2%	25.4%
2	Brand F	4.9	16.0%	22.5%
3	Brand G	3.5	11.4%	34.6%
4	Brand D	1.2	4.0%	18.3%
5	Li Du	0.6	2.1%	80.9%

Source: Frost & Sullivan Analysis

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

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

Ranking	Brand	Revenue (RMB Billion)	Market Share	2020-2021 YOY
1	Brand H	60.5	21.1%	17.7%
2	Brand I	22.2	7.8%	18.7%
3	Brand J	14.7	5.1%	31.3%
4	Brand K	14.0	4.9%	7.6%
5	Brand L	9.3	3.2%	19.2%

Source: Frost & Sullivan Analysis

Notes:

1. Company A's main product line include sauce aroma baijiu. It is a nationwide state-owned company established in 1999 and a listed company in Shanghai Stock Exchange headquartered in Guizhou. Brand A belongs to Company A.
2. Company B's main product line include strong aroma baijiu. It is a nationwide state-owned company established in 1998 and a listed company in Shenzhen Stock Exchange headquartered in Sichuan. Brand H belongs to company B
3. Company C's main product line include strong aroma baijiu. It is a nationwide state-owned company established in 2002 and a listed company in Shenzhen Stock Exchange headquartered in Jiangsu. Brand I belongs to company C.
4. Company D's main product line include strong aroma baijiu. It is a nationwide state-owned company established in 1995 and a listed company in Shenzhen Stock Exchange headquartered in Sichuan. Brand K belongs to company D.
5. Company E's main product line include light aroma baijiu. It is a nationwide state-owned company established in 1985 and a listed company in Shanghai Stock Exchange headquartered in Shanxi.
6. Company F's main product line include sauce aroma baijiu. It is a nationwide state-owned company established in 2000 and an unlisted company headquartered in Guizhou. Brand B belongs to Company F.
7. Company G's main product line include strong aroma baijiu. It is a nationwide private-owned company established in 1996 and an unlisted company headquartered in Sichuan. Brand J belongs to company G.
8. Company H's main product line include strong aroma baijiu. It is a nationwide state-owned company established in 1999 and a listed company in Shenzhen Stock Exchange headquartered in Anhui. Brand L belongs to company H.
9. Company I's main product line include sauce, strong and mixed aroma baijiu. It is a nationwide private-owned company established in 2007 and an unlisted company headquartered in Sichuan. Brand D belongs to Company I.
10. Company J's main product line include light aroma baijiu. It is a nationwide state-owned company established in 1998 and a listed company in Shenzhen Stock Exchange headquartered in Beijing.
11. Company K's main product line include sauce aroma baijiu. It is a nationwide private-owned company established in 2001 and an unlisted company headquartered in Guizhou. Brand C belongs to Company K.
12. Company L's main product line include feng aroma baijiu. It is a nationwide state-owned company established in 1999 and an unlisted company headquartered in Shaanxi.

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

IMPACT OF COVID-19

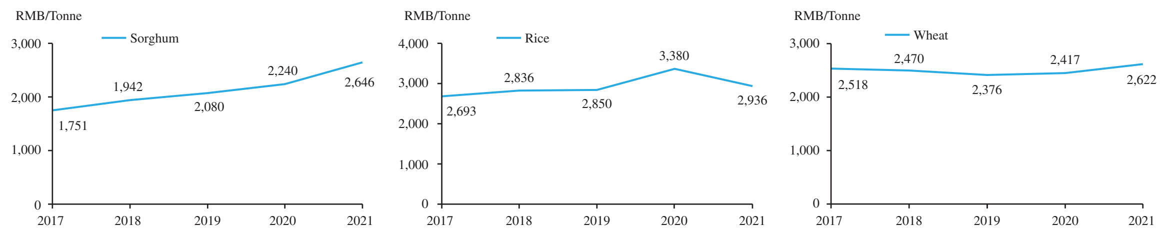
The outbreak of COVID-19 since the end of 2019 has significantly affected the global economy. In response to the pandemic, countries and regions across the world, including China, have imposed measures such as lockdowns and travel restrictions to contain the spread of the virus. The impacts of the COVID-19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

MAJOR RAW MATERIAL AND COST ANALYSIS

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

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

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

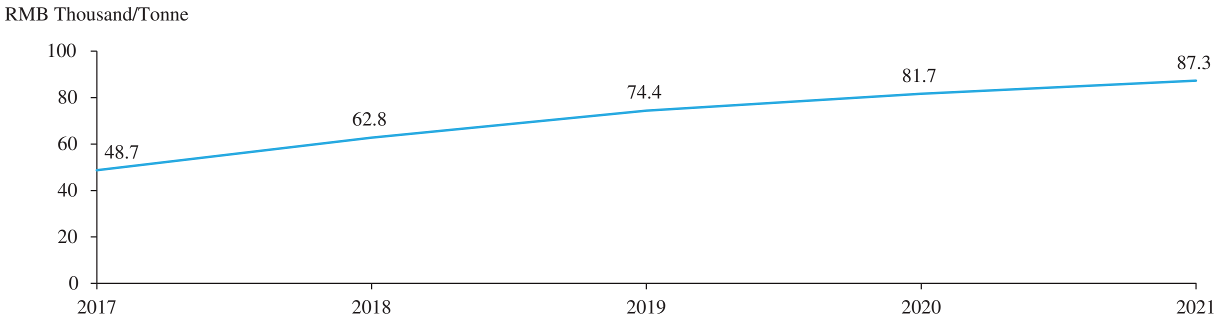


Source: Frost & Sullivan Analysis

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

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

Price Trend of Baijiu Products in China, 2017-2021



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