

BUSINESS

OVERVIEW

Who We Are

We are a leading baijiu company in China devoted to offering premium baijiu products featuring sauce aroma profile. According to Frost & Sullivan, we were the fourth largest privately-owned baijiu company and ranked third among all baijiu companies with three or more aroma types, in terms of revenue in 2021. According to Frost & Sullivan, we ranked 14th among all baijiu companies in China with a market share of 0.8%, in terms of revenue in 2021. We have grown significantly faster than the industry average during the Track Record Period. Our growth capitalized on the increasing popularity of sauce aroma baijiu across China and consumer preferences towards premiumization, and we are expected to continue to benefit from these market trends. We operate four major baijiu brands in China, including our flagship brand *Zhen Jiu* (珍酒), a thriving brand *Li Du* (李渡), as well as two regional leading brands *Xiang Jiao* (湘窖) and *Kai Kou Xiao* (開口笑). Leveraging these renowned brands, we promote traditional Chinese baijiu culture by developing a broad selection of fragrant, mellow baijiu products to appeal to different consumer preferences and capture broader market opportunities.

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

Our Market Opportunities

Baijiu is China’s national liquor and the world’s most consumed liquor. Baijiu accounted for 69.5% of the alcoholic beverage market in China in terms of revenue in 2021, exceeding wine’s 49.9% market share in French alcoholic beverage market and beer’s 50.5% market share in the U.S. alcoholic beverage market in the same period, according to Frost & Sullivan. The market size of baijiu industry in China increased from RMB565.4 billion in 2017 to RMB603.3 billion in 2021, at a CAGR of 1.6%, and is expected to grow from RMB621.1 billion in 2022 to RMB769.5 billion in 2026, at a CAGR of 5.5% driven primarily by the premiumization trend and high growth potential of sauce aroma baijiu, according to Frost & Sullivan.

Baijiu products in China are classified into four price hierarchies, i.e., deluxe, premium, mid-range and low-end. Leveraging our insight into the premiumization trend as well as our rich heritage and strong brand recognition, we primarily target our products at the premium and above baijiu market. As a percentage of our total revenue, revenue generated from our premium and above baijiu products increased from 51.8% in 2020 to 65.4% in 2022. The market size of premium and above baijiu in China grew at a CAGR of 13.1% from 2017 to 2021, and is expected to grow at the fastest rate among all price ranges, at a CAGR of 12.3% from 2022 to 2026, from RMB234.1 billion in 2022 to RMB371.9 billion in 2026, according to Frost & Sullivan. The market share of premium and above baijiu in China’s baijiu market grew from 23.3% in 2017 to 35.7% in 2021, and is expected to grow from 37.7% in 2022 to 48.3% in 2026. To better adapt to the premiumization trend in baijiu market, we are further expanding our premium and above product portfolio, increasing our baijiu production capacity for premium and above baijiu and growing our multi-channel sales network characteristic with immersive promotion strategy.

BUSINESS

Baijiu products in China are classified into 12 aroma profiles according to their different flavors generated by varied production techniques and processes. Among these aroma profiles, the biggest four aroma profiles are strong aroma, sauce aroma, light aroma and mixed aroma. We produce and sell sauce aroma, mixed aroma and strong aroma baijiu, with sauce aroma baijiu being our major growth engine. According to Frost & Sullivan, in 2021, the market size of these three baijiu aroma profiles was approximately RMB506.9 billion, accounting for nearly 85% of the total market size, with the sauce aroma profile having the highest growth potential. As a percentage of our total revenue, revenue generated from our sauce aroma baijiu products increased from 59.6% in 2020 to 71.4% in 2022. The market size of sauce aroma baijiu in China grew at a CAGR of 15.8% from 2017 to 2021, and is expected to grow at a CAGR of 12.2% from 2022 to 2026, from RMB203.3 billion in 2022 to RMB321.7 billion in 2026. The market share of sauce aroma baijiu in China’s baijiu market grew from 18.7% in 2017 to 31.5% in 2021, and is expected to grow from 32.7% in 2022 to 41.8% in 2026, surpassing that of strong aroma baijiu and becoming the largest among all aroma profiles. While experiencing growing popularity among consumers, premium sauce aroma baijiu has been in short supply due to the intricate process and longer period of production, and the scarcity of suitable terroir. As a result, sauce aroma baijiu, which accounts for only 8.4% of the total baijiu production in China, generated 31.5% of the revenue and over 45% of the profit of China’s entire baijiu industry in 2021. The growing popularity of sauce aroma baijiu underpins promising growth potential. We believe we are well positioned to continue to benefit from this trend, especially with the continued growth of our flagship sauce aroma brand *Zhen Jiu*.

Our Growth Engines

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

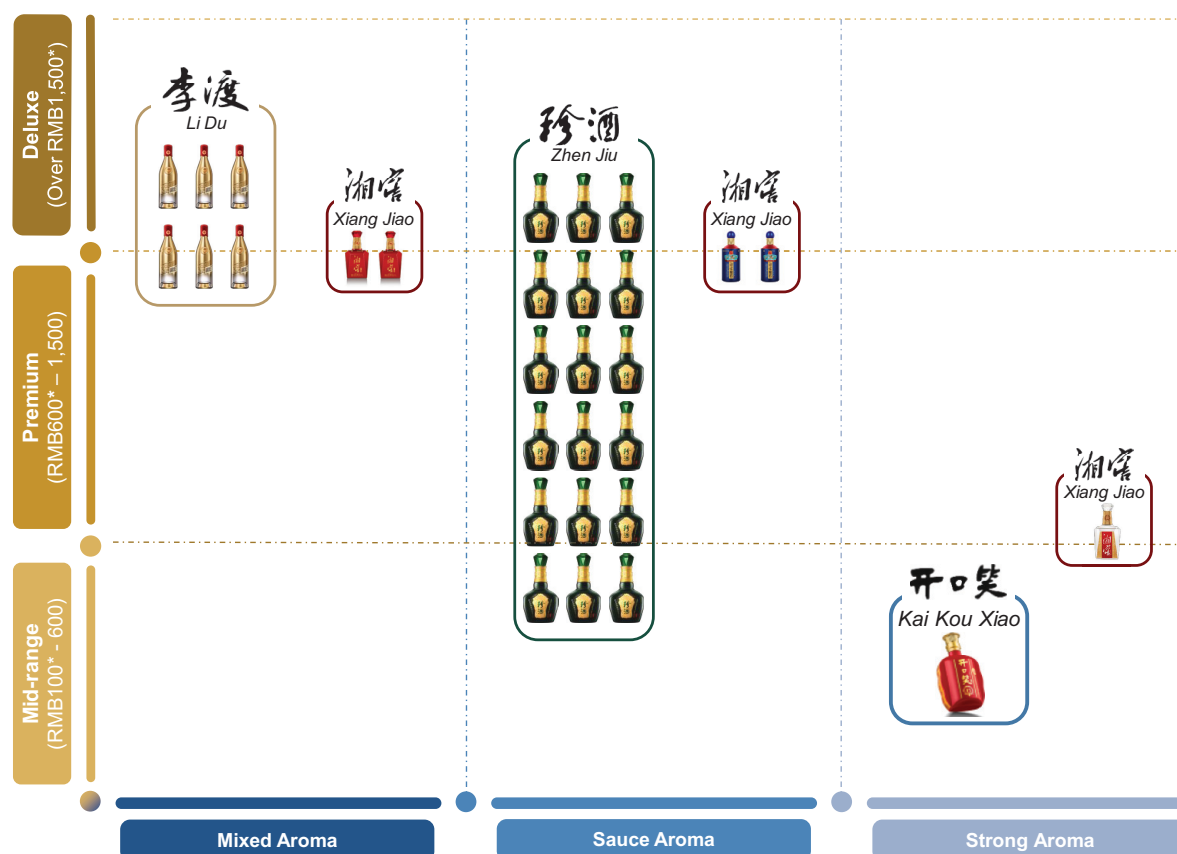
During the Track Record Period, we achieved strong growth and outstanding profitability. In 2020, 2021 and 2022, our total revenue reached RMB2,398.9 million, RMB5,101.6 million and RMB5,855.9 million, respectively, representing an increase by 112.7% from 2020 to 2021 and an increase by 14.8% from 2021 to 2022. In 2020, 2021 and 2022, our net profit margin was 21.7%, 20.2% and 17.6%, respectively,

BUSINESS

while our adjusted net profit margin (non-IFRS measure) for the same periods was 21.7%, 21.0% and 20.4%, respectively.

Our Brands and Products

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



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

Zhen Jiu, our flagship brand, primarily targets sauce aroma baijiu lovers who crave for premium, quality sauce aroma baijiu products, and generated 65.3% of our revenue for the year ended December 31, 2022. It can be traced back to a key national technical development project initiated in 1975, aiming to produce high-quality sauce aroma baijiu in other locations in Guizhou’s Zunyi region that can match one of China’s most prestigious baijiu brands. Through years of tireless efforts, *Zhen Jiu* successfully passed the production test appraisal in 1985 by a dedicated evaluation team consisting of governmental authorities and industry experts, marking its alignment in texture and flavor. *Zhen Jiu* has gradually optimized the recipes of its products to create iconic tastes appealing to consumers across China. We enjoyed tremendous success in making our popular sauce aroma baijiu products, including Zhen 30 (珍三十) Series and Zhen 15 (珍十五) Series which achieved great market acceptance and international recognition. *Zhen Jiu* was the fifth largest sauce aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the

BUSINESS

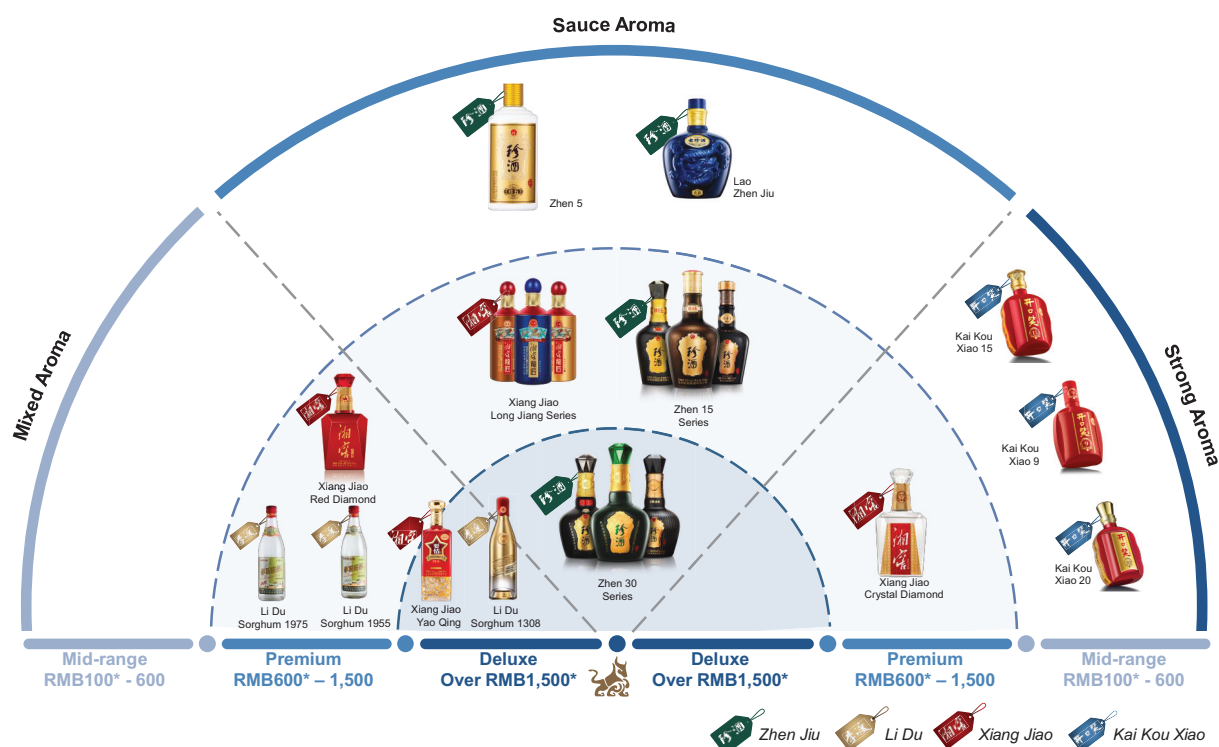
top five sauce aroma baijiu brands in China in the same year, according to Frost & Sullivan, successfully expanding its presence to 31 provincial areas in China.

Li Du is a thriving brand focused on producing and marketing premium and above mixed aroma baijiu products and generated 15.1% of our revenue for the year ended December 31, 2022. *Li Du* was the fifth largest mixed aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five mixed aroma baijiu brands in China in the same year. Our brand *Li Du* was established to honor its origin from Lidu, Jiangxi, an ancient town in China that is steeped in its long-standing tradition of making baijiu. The baijiu-making techniques of *Li Du* were recognized as an Intangible Cultural Heritage of Jiangxi. In 2002, an ancient baijiu distillery of the Yuan Dynasty (1271 AD to 1368 AD) was discovered during the renovation of our production facility in Lidu, Jiangxi and was subsequently named on the list of Major National Historical and Cultural Sites. Our *Li Du* brand includes a portfolio of selected mixed aroma baijiu products, featuring Li Du Sorghum 1308 (李渡高粱1308), Li Du Sorghum 1955 (李渡高粱1955) and Li Du Sorghum 1975 (李渡高粱1975).

Xiang Jiao and *Kai Kou Xiao* are regional leading brands in Hunan with diversified aroma profiles and broad product offerings at different price points. They generated 12.2% and 5.8% of our revenue for the year ended December 31, 2022, respectively. Originally established in 1957, *Xiang Jiao* was synonymous with the rich cultural heritage of baijiu-making in Hunan. At *Xiang Jiao*, we offer a wide range of premium baijiu products covering strong aroma, sauce aroma and mixed aroma profiles, represented by Xiang Jiao Long Jiang (湘窖·龍匠) Series, Xiang Jiao Yao Qing (湘窖·要情酒), Xiang Jiao Red Diamond (湘窖酒·紅鑽) and Xiang Jiao Crystal Diamond (湘窖酒·水晶鑽). We name the brand *Kai Kou Xiao*, or “A Big Smile” in English, because we aspire to spread the joyfulness of life through our baijiu products. At *Kai Kou Xiao*, we mainly offer strong aroma baijiu products targeting the mid-range market, represented by Kai Kou Xiao 20 (開口笑酒20), Kai Kou Xiao 15 (開口笑酒15) and Kai Kou Xiao 9 (開口笑酒9).

BUSINESS

The following diagram illustrates the representative products of our four major baijiu brands according to different price ranges and aroma profiles.



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

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

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except percentages)</i>					
Zhen Jiu	1,345,546	56.1	3,487,573	68.4	3,822,696	65.3
Li Du	359,225	15.0	649,954	12.7	886,850	15.1
Xiang Jiao	394,879	16.5	605,569	11.9	712,791	12.2
Kai Kou Xiao	172,033	7.1	256,579	5.0	338,675	5.8
Others*	127,232	5.3	101,918	2.0	94,905	1.6
Total	2,398,915	100.0	5,101,593	100.0	5,855,917	100.0

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

Our Production Highlights

We are committed to the time-honored traditional baijiu-making techniques and reinvigorating them by taking advantage of modern technologies to develop iconic tastes. Our flagship brand *Zhen Jiu* can trace its baijiu-making techniques to one of China’s most prestigious baijiu brands. We take pride in the distinctive sauce aroma, refined and delicate taste with lingering aftertaste of our *Zhen Jiu* products attributable to its profoundly intricate process of baijiu making. In particular, we meticulously blend our

BUSINESS

Zhen Jiu products to offer a full-bodied texture, catering to evolving consumer trends. Building on the strong traditional Chinese baijiu culture in Lidu, Jiangxi, we pride ourselves on inheriting and reinvigorating the long-standing baijiu-making techniques and process. The unique, layered tastes of our *Li Du* products are partially shaped by the distinct group of active microorganisms in the fermentation environment, gradually formed in the long history of baijiu making in the town of Lidu, which could be traced back to the Yuan Dynasty (1271 AD to 1368 AD).

Furthermore, we strategically locate our production facilities in geographic regions most favorable for baijiu making, to ensure that our traditional baijiu-making techniques and local natural geographical advantages complement each other. We leverage the mild, humid climate, favorable terroirs, long history of baijiu making and abundant natural resources, such as sufficient locally grown grains and plentiful water, within these geographic regions to produce high-quality baijiu. We produce our baijiu products in our production facilities. As of the Latest Practicable Date, we had six production facilities in operation. We commenced the expansion of three existing production facilities as well as the construction of one new production facility as of the Latest Practicable Date. These planned projects are expected to increase our annual production capacity of base liquor by 26,000 tons by 2024, among which 16,600 tons are for sauce aroma base liquor.

Our Multi-Channel Sales and Marketing

Tailoring to the consumption pattern of baijiu products, we have established an extensive sales network across China and reached consumers through multiple channels we have been actively exploring. Our sales channels consist of a broad distribution network and our direct sales channel. As of December 31, 2022, we collaborated with 6,630 distributors in 31 provincial areas across China to promote and sell our baijiu products. Our distribution network consists of distribution partners, featured stores and retailers. As of December 31, 2022, our distribution partners worked with over 189,000 points of sale to sell our baijiu products, with over 112,000 of whom connected to our digital sales management app. During the Track Record Period, we increased our cooperation with featured stores and retailers to promote our brand image and strengthen our connections to end consumers. In 2020, 2021 and 2022, revenue generated from our distribution network represented 88.1%, 88.8% and 88.8% of our total revenue, respectively. We also sell our products directly to group-purchase consumers or through online stores operated by us and our online distributors on different e-commerce platforms. From 2020 to 2022, revenue from online channels as a percentage of our total revenue increased from 3.7% to 6.5%.

In addition to our multiple sales channels, the successful promotion of baijiu products, particularly premium and above products, hinges on building and maintaining direct connections with consumers to nudge them from initial awareness, to trial and, ultimately, to become our brand advocates. We adopt an immersive promotion strategy, which, combined with our quality baijiu products, creates a vast, loyal consumer base with attractive cross-selling opportunities. In addition, we also dedicate our on-the-ground sales team, consisting of the vast majority of our 4,060 employees under our sales and marketing function as of December 31, 2022, to supporting our distributors' marketing efforts, managing our distribution network and engaging end consumers. We believe adopting such a promotion strategy is a long-term investment that will pay off throughout our journey, and we have devoted an increasing amount of our on-the-ground sales team and resources to it. We engage our consumers via multiple approaches including immersive brand education experiences, tailor-made interactive events, as well as influential brand stories.

BUSINESS

OUR COMPETITIVE STRENGTHS

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

A leading baijiu company carrying forward rich heritage and winning strong brand recognition

We are a leading baijiu company in China with strong growth momentum and influential brands devoted to offering premium baijiu featuring sauce aroma profile. According to Frost & Sullivan, we were the fourth largest privately-owned baijiu company and ranked third among all baijiu companies with three or more aroma types, in terms of revenue in 2021. According to Frost & Sullivan, we ranked 14th among all baijiu companies in China with a market share of 0.8%, in terms of revenue in 2021. Our flagship brand *Zhen Jiu*, which targets sauce aroma baijiu lovers, was the fifth largest sauce aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five sauce aroma baijiu brands in China in the same year. *Li Du* was the fifth largest mixed aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five mixed aroma baijiu brands in China in the same year. Underlying our achievements are our rich heritage and strong brand recognition that differentiate us from competitors in the highly competitive baijiu industry in China.

Baijiu is China’s national liquor. There are long histories and rich traditions of consuming baijiu and baijiu has become an integral part of Chinese culture. It is ubiquitous at formal dinners and family get-togethers and essential to celebrations and special occasions. This culture nurtured us and firmed up our mission, “carry forward rich culture heritage and turn every drop of aromatic baijiu into a joyful and memorable moment.” We named our flagship baijiu brand *Zhen Jiu*, or “Treasure of Liquor,” inspired by the praise from a former vice premier of China who tasted our baijiu. The praise reflects both the techniques that were passed down to us as well as the refined and delicate taste with lingering aftertaste and full-bodied texture of our products. The baijiu-making techniques of *Li Du* were awarded as Intangible Cultural Heritage of Jiangxi in 2006. Our Lidu Yuan Dynasty baijiu distillery site was named one of the Top Ten New Archeological Discoveries in China in 2002 and was accredited by the State Council as a Major National Historical and Cultural Sites Protected in May 2006. These heritages embedded in our products provide our consumers with a compelling narrative to relate to, and, more importantly, to share with others as they enjoy our products at social events with friends and business partners.

Rooted in our rich heritage, we strive to build our brands epitomizing Chinese premium baijiu. With product quality at our heart, our brands and key products are well recognized by industry experts, government authorities, international awards, and, ultimately, consumers. *Zhen Jiu* was served as the designated alcoholic drink on State Banquets by central governmental authorities, reflecting the official recognition of our brand and products. In 1988, three years after it successfully passed the production test appraisal, *Zhen Jiu* won the fifth National Quality Award – Silver Medal for Baijiu, recognized as one of the top three sauce aroma brands in Guizhou. The National Quality Award is widely recognized as one of the most authoritative awards for baijiu in the industry, according to Frost & Sullivan. We are committed to creating the best drinking experience and expanding our brand awareness through our popular products with high quality. For example, Zhen 30 (珍三十) Series and Zhen 15 (珍十五) Series, our representative deluxe and premium sauce aroma baijiu products, appealing to consumers nationwide for their distinctive sauce aroma, refined and delicate taste with lingering aftertaste, and full-bodied texture, were awarded Double Gold Medal and Gold Medal at San

BUSINESS

Francisco World Spirits Competition in 2022, respectively. Li Du Sorghum 1308 (李渡高粱1308) and Li Du Sorghum 1955 (李渡高粱1955), our representative mixed aroma baijiu products combining the taste and fragrance of strong and special aroma profiles to form unique, layered tastes, won the Grand Gold Medals from the Spirits Selection by Concours Mondial de Bruxelles in 2015 and 2019, respectively.

Our distinctive brand images, strong brand recognition and high-quality offerings are keys to attract consumers and cultivate strong brand loyalty. According to a survey conducted by Frost & Sullivan in 2021, more than 90% of the consumers who purchased our baijiu products would repurchase baijiu products under our brands.

Three tiers of growth engines driving strong and sustainable growth

We have built three tiers of growth engines: *Zhen Jiu*, our flagship brand featuring premium sauce aroma baijiu, is our major growth engine which continuously delivers strong and sizable growth across China, capturing the high growth potential of the sauce aroma baijiu market and the premiumization trend. *Li Du*, a thriving brand featuring premium and above mixed aroma baijiu products, has delivered high growth and is expected to create additional momentum for continued growth by further strengthening its brand recognition and sales network nationwide outside of Jiangxi. *Xiang Jiao* and *Kai Kou Xiao*, regional leading brands in the Hunan market, are expected to continue to contribute to our long-term sustainable growth. We are the only baijiu company in China that operates three premium and above baijiu brands, among the top 15 baijiu companies in terms of revenue, according to Frost & Sullivan. In their respective stages of growth, the three tiers of growth engines complement one another and work in concert to drive long-term growth that we believe to be strong and sustainable.

The three tiers of growth engines have captured the opportunities presented by the increasing popularity of sauce aroma baijiu across China and consumer preferences towards premiumization. We expect that we will continue to capitalize on these market trends leveraging our three tiers of growth engines. The market size of premium and above baijiu in China grew at a CAGR of 13.1% from 2017 to 2021, and is expected to grow at the fastest rate among all price ranges, at a CAGR of 12.3% from 2022 to 2026, from RMB234.1 billion in 2022 to RMB371.9 billion in 2026, according to Frost & Sullivan. The market share of premium and above baijiu in China's baijiu market grew from 23.3% in 2017 to 35.7% in 2021, and is expected to grow from 37.7% in 2022 to 48.3% in 2026. The market size of sauce aroma baijiu in China grew at a CAGR of 15.8% from 2017 to 2021, and is expected to grow at a CAGR of 12.2% from 2022 to 2026, from RMB203.3 billion in 2022 to RMB321.7 billion in 2026. The market share of sauce aroma baijiu in China's baijiu market grew from 18.7% in 2017 to 31.5% in 2021, and is expected to grow from 32.7% in 2022 to 41.8% in 2026 surpassing that of strong aroma baijiu and becoming the largest among all aroma profiles. Sauce aroma baijiu, which accounts for only 8.4% of the total baijiu production in China, generated 31.5% of the revenue and over 45% of the profit of China's entire baijiu industry in 2021.

At *Zhen Jiu*, we have been tremendously successful in making our popular premium sauce aroma baijiu products, including the Zhen 30 (珍三十) Series and the Zhen 15 (珍十五) Series that achieved great market acceptance nationwide. During the Track Record Period, *Zhen Jiu* experienced rapid growth, with revenue increasing by 159.2% from RMB1,345.5 million in 2020 to RMB3,487.6 million in 2021. As a percentage of *Zhen Jiu*'s total revenue, revenue contributed by premium and above *Zhen Jiu* products increased from 55.1% in 2021 to 68.4% in 2022. *Zhen Jiu*'s growth is also driven by expanded and

BUSINESS

deepened market presence across China, with the number of our distributors increased by 83.2% from 3,613 as of the start of 2021 to 6,618 as of the end of 2022. As a percentage of its total revenue from distributors, *Zhen Jiu*'s revenue generated from distributors of regions outside of Guizhou, which initially was our biggest regional market, achieved 82.5% in 2022. *Zhen Jiu* also established robust sauce aroma baijiu production capacity in Zunyi region with superb terroir for producing sauce aroma baijiu. We expect to expand sauce aroma baijiu production capacity progressively which coupled with *Zhen Jiu*'s increasing brand recognition, outstanding product competitiveness, national sales networks, makes *Zhen Jiu* our major growth driver.

Li Du has established itself as a brand with increasing nationwide presence and influence, leveraging the strong heritage and renowned layered-tastes embodied in its products. The representative *Li Du* products include Li Du Sorghum 1308 (李渡高粱1308), Li Du Sorghum 1955 (李渡高粱1955) and Li Du Sorghum 1975 (李渡高粱1975) focusing on the premium and above market segment. *Li Du* achieved substantial growth during the Track Record Period. Its revenue increased by 80.9% from RMB359.2 million in 2020 to RMB650.0 million in 2021, primarily driven by the market success of the premium and above products and immersive promotion strategy that demonstrates *Li Du*'s unique history heritage which resonates with avid baijiu lovers. As a percentage of *Li Du*'s total revenue, revenue contributed by premium and above *Li Du* products increased from 75.5% in 2021 to 76.7% in 2022. *Li Du* is expanding nationwide by strengthening its brand recognition and sales network, and serves as our second growth engine to boost further growth.

Xiang Jiao and *Kai Kou Xiao* have developed diversified aroma profiles and broad product offerings at various price points to cater to the varied consumer preferences in the Hunan market. Leveraging their well-established sales network to deeply penetrate the local market and achieve high consumer recognition, *Xiang Jiao* and *Kai Kou Xiao* have maintained steady growth. The revenue of *Xiang Jiao* increased by 53.4% from RMB394.9 million in 2020 to RMB605.6 million in 2021 and the revenue of *Kai Kou Xiao* increased by 49.1% from RMB172.0 million in 2020 to RMB256.6 million in 2021. Through dynamic management of their product portfolio to adapt to evolving market demands, they serve as a solid base to support our stable and sustainable growth.

Sizable production capacity located in scarce and top baijiu production regions underpinning our core competitiveness and long-term growth potential

All of our production facilities for *Zhen Jiu* are strategically located in Guizhou's Zunyi region, a place that is widely considered ideal for making fine sauce aroma baijiu in China. Our sizable production capacity in this region lays the foundation for steady output of high-quality base liquor, which plays a pivotal role in ensuring consistent production of premium baijiu at scale and further enriching our high-end product offerings. 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, according to Frost and Sullivan. Sizable production capacity of sauce aroma baijiu is our core competitiveness that is difficult for competitors to match, due to the scarcity of premium baijiu production regions and the substantial capital investment needed.

According to Frost & Sullivan, Guizhou is an ideal place for the production of sauce aroma baijiu, and produced over 80% of China's sauce aroma baijiu in 2021. Within Guizhou, the Zunyi region is the core production region for sauce aroma baijiu, where all of our production facilities for *Zhen Jiu* are strategically

BUSINESS

located. With long summers and short winters, the Zunyi region enjoys a mild climate and high relative humidity, which constitute a preferable ecological environment for making sauce aroma baijiu. Such an ecological environment contains a vast community of active micro-organisms essential for generating the intriguing sauce aroma. In recent years, many small baijiu production plants in the Zunyi region were requested to shut down by local government due to improper production and waste disposal protocols. The consolidation of local production capacity and a growing appetite for baijiu produced in the Zunyi region made its production capacity more valuable, according to Frost & Sullivan. Against the backdrop, we benefit from higher entry barriers and the resulting greater scarcity of our sizable production capacity. As of December 31, 2022, we operated three production facilities in the Zunyi region, with designed annual capacity of 35,000 tons sauce aroma base liquor. As of the Latest Practicable Date, we had commenced the expansion of two of these production facilities. By 2024, these planned expansions are expected to gradually increase our annual production capacity of sauce aroma base liquor by 16,600 tons. We are progressively securing superb terroir for sauce aroma base liquor and expanding our production facilities to capture the growth potential in a large and growing baijiu market and to strengthen our core competitiveness.

To maintain the scarce local ecological environment, attract local talent and secure quality raw materials, we are fully committed to sustainable development. We are engaged in multiple water stewardship efforts and adopt a range of energy reduction and carbon reduction measures. We have also been sourcing and purchasing agricultural materials produced locally, such as the red tassel sorghum that are indispensable for making premium sauce aroma baijiu, thereby encouraging farmers in the surrounding low-income areas to cultivate crops with greater confidence.

Meticulous baijiu-making techniques and solid product development capabilities demonstrated by well-liked products

To produce baijiu products with consistent high quality at scale, we adhere to traditional baijiu-making techniques to make base liquor, while leveraging modern technologies and facilities.

- At *Zhen Jiu*, we comply with meticulous baijiu-making techniques traced back to that of one of the most prestigious sauce aroma baijiu brands for our premium sauce aroma baijiu products to preserve the distinctive sauce flavor and full-bodied texture. The entire fermentation and distillation process for sauce aroma baijiu is the most complex among all aroma profiles. It usually takes approximately 11 months to finish, during which the grains are steamed and cooked nine times, between which the fermentation process is repeated eight times, followed by seven times of distillation. Mastery of each stage in the production chain is essential to the aromatic quality. We carry out this complex process to facilitate delicate collaboration of many ingredients and microorganisms to generate a synergistic effect that enhances the aroma of base liquor.
- At *Li Du*, we follow the traditional techniques that could be traced back to Yuan Dynasty to create a unique, layered flavor, with strong fragrance, rice-flavor beginning taste, light mid-palate and sauce-flavor aftertaste. The biodiversity that *Li Du* balances in its fermentation process is integral to its baijiu-making process. Our *Li Du* products' unique, layered tastes are partially shaped by the distinct group of active operational taxonomic units rich in the fermentation pit mud, gradually formed in the long history of baijiu making in the town of Lidu.

BUSINESS

We install advanced equipment and use digitalization to streamline and optimize the production process. We adopt a digitalized base liquor management system that leverages the digital simulation technologies to improve base liquor storage and aging.

Our solid product development capabilities are pivotal to the flavors of our products and the constant product innovations to cater to the demand for better taste and enjoyable drinking experience. Our baijiu products are consummated by blending, an exploration for harmony and consistency. Our baijiu products showcase signature blending techniques and know-how that are preserved and optimized by blending experts and acquired and developed by our growing team of blending specialists. Our product development team is spearheaded by a technical committee consisting of 25 well-recognized baijiu experts with in-depth industry experience ranging from baijiu making and tasting to baijiu blending, among whom four are national baijiu appraisers, nine hold senior baijiu-maker certificates, and ten hold senior engineer qualifications. We have also strengthened our product development capabilities by collaborating with several universities and research institutions, such as Jiangnan University, Central South University of Forestry, Guizhou Institute of Technology and Tianjin University of Science and Technology. With the technical support from these academic institutions, we have identified certain traceable components during baijiu production for the enhancement of the flavor and functional quality of our baijiu products. The results of our collaborative research have been recognized, with our win of the Second Prize of the Science and Technology Award by the China Food Industry Association in 2014 and 2021.

Our meticulous baijiu-making techniques and proven product development capability underpin the successful launch of our popular products, which constitutes a crucial driver for our strong growth. We have been continuously advancing our product offerings through selective introduction of new products and upgrades to meet the ever-changing needs of consumers and marketplace. At *Zhen Jiu*, Zhen 30 (珍三十) Series and Zhen 15 (珍十五) Series gradually became our popular products, with gross sales of approximately RMB0.5 billion and RMB1.5 billion, respectively, in 2021. At *Li Du*, we have launched Li Du Sorghum 1308 (李渡高粱1308), the first deluxe product under this brand and achieved gross sales of over RMB200 million in the first twelve months following its launch. At *Xiang Jiao*, we launched Xiang Jiao Long Jiang (湘窖·龍匠) Series, the popular premium sauce aroma product series under this brand, in 2020, and achieved gross sales of approximately RMB700 million since its launch in 2020.

Extensive multi-channel sales network characterized by immersive promotion strategies

Tailoring to the consumption pattern of baijiu products, we have established an extensive sales network across China and reached consumers through multiple channels we have been actively exploring. Our sales channels consist of a broad distribution network and our direct sales channel. As of December 31, 2022, we collaborated with 6,630 distributors in 31 provincial areas across China to promote and sell our baijiu products. The distribution network we work with consists of distribution partners, featured stores and retailers. As of December 31, 2022, our distribution partners worked with over 189,000 points of sale to sell our baijiu products, with over 112,000 of whom connected to our digital sales management app. During the Track Record Period, we increased our cooperation with featured stores and retailers to promote our brand image and strengthen our connections to end consumers. In 2020, 2021 and 2022, revenue generated from our distribution network represented 88.1%, 88.8% and 88.8% of our total revenue, respectively. We also sell our products directly to group-purchase consumers and through our online stores on different

BUSINESS

e-commerce platforms. From 2020 to 2022, revenue from online channels as a percentage of our total revenue increased from 3.7% to 6.5%.

Consumers are increasingly seeking brands that are culturally relevant to them. In addition to our multiple sales channels, the successful promotion of baijiu products, particularly premium and above products, hinges on building and maintaining direct connections with consumers to nudge them from initial awareness, to trial and, ultimately, to become our brand advocates. We adopt an innovative, immersive promotion strategy, which, combined with our quality baijiu products, creates a vast, loyal consumer base. In addition, we also dedicate our on-the-ground sales team, consisting of the vast majority of our 4,060 employees under our sales and marketing function as of December 31, 2022, to supporting our distributors’ marketing efforts, managing distribution networks and engaging end consumers. We believe adopting such a promotion strategy is a long-term investment that will pay off throughout our journey, and we are devoting an increasing amount of our on-the-ground sales team and resources to it. We engage our consumers via multiple approaches:

- *Immersive brand education experiences.* We promote immersive and engaging baijiu culture and brand education experiences through distillery tours. Under each brand, we opened up part of our production facilities to the public for distillery tours, among which *Li Du* and *Xiang Jiao*’s distilleries were awarded with the designation of the National AAAA-level Tourist Attraction, indulging consumers in the charm of Chinese baijiu culture, the fun of traditional baijiu making and blending with their efforts, as well as increasing their understanding of the distinctive features of our quality products. For example, *Li Du* rides on the China chic trend and leverages the deep heritage behind the brand to launch various cultural tourism products that allow tourists to participate in local cultural events and appreciate local intangible cultural heritage such as baijiu-related ritualistic activities. In 2021 alone, our distillery tours attracted over 163,000 visits.
- *Tailor-made interactive events.* We work with our distributors to organize a variety of tailor-made events through one-on-one or small group interactions to connect to our consumers. Consumers may enjoy and purchase our baijiu products while immersing themselves in the joyful and personalized experiences created through baijiu tasting events, exclusive dining experiences and memorable celebration moments. Consumers attracted by our products and activities at the featured stores often bring their friends or business partners with them and help promote our products and services through word of mouth.
- *Influential brand stories.* We work with baijiu experts and influencers to create engaging online contents and promote our brand images via digital platforms such as Douyin, Weixin and Weibo, to launch target marketing activities to convey our brand propositions and encourage viral dissemination of our brand stories.

Stringent quality control system assuring consistent and premium quality

We believe food safety and product quality are of paramount importance to our day-to-day business operations. Our relentless efforts in food safety and product quality can be exemplified by a number of certifications we are accredited to by reputable certification institutions, including the Hazard Analysis Critical Control Point (HACCP) certification, ISO9001 certification, Food Safety Management System (FSMS) certification and Occupational Health and Safety Management System (OHSMS) certification.

BUSINESS

We have established a closed-loop quality management system which is empowered by technology infrastructure covering from raw materials procurement to sales order management.

- *Supply chain management.* We maintain a list of qualified suppliers, who have a proven record of reliable and stable supply, and we only partner with such qualified suppliers. We implement stringent policies to manage our suppliers including admission, maintenance and dismissal based on assessment results, in order to strictly control the quality of the materials supply. We also dispatch specialists to our core suppliers’ premises to monitor their production process and provide guidance in order to gain more control over product quality.
- *Production process.* We have quality control personnel at each of our production facilities as well as at the headquarters, who are responsible for formulating and implementing our quality control measures during the production process. We require our employees to strictly adhere to the procedures and standards stipulated in the measures to make sure the flavor, quality and hygiene of our baijiu products meet our standards. Furthermore, we have a number of advanced equipment and instruments such as multi-modalities gas chromatography, high performance liquid chromatography-mass spectrometry (LC-MS) systems and isotope ratio mass spectrometry (IRMS) systems for profiling, screening, identifying and analyzing a wide variety of compounds to improve the quality and consistency of our baijiu products.
- *Logistics and warehousing.* To ensure effective management of daily logistics, we maintain a comprehensive record of goods in transit such as name, responsible supplier, delivery date and shelf life. We impose strict standards for the storage of different raw material, work-in-progress and finished products. A dedicated in-house quality control team performs stringent quality checks regularly and monitors the storage and usage status in each warehouses.
- *Product traceability.* We have also set up a dedicated channel and product quality assurance team and information tracing system to extend our quality control to product transportation and sales. By developing our QR code system incorporated with RFID technology, we are able to track and trace individual products through the sales channel and provide a higher level of anti-counterfeiting protection.

Insightful founder and experienced senior management supported by skilled employees with strong industry experience

We are led by our founder Mr. Wu and a team of dedicated and experienced senior management. Our Founder and Chairman, Mr. Wu Xiangdong, is a serial entrepreneur with over 20 years of experience in the baijiu industry with a proven record of successful entrepreneurship. His leadership, combined with his deep industry expertise derived from his deep experience covering the whole baijiu industry value chain from production to sales and distribution, enables him to spearhead the sustainable growth of our business. Our founder is supported by a professional senior management team with rich industry experience and professional qualifications. They bring us an average of over 17 years of experience spanning all major aspects of our business, including business operation, branding and marketing, supply chain management, and financial expertise from industry leading public and private companies. See “Directors and Senior Management” for the detailed descriptions of our management team’s experience and qualifications. Since

BUSINESS

inception, we stand to recruit and cultivate the right people that are committed to excellence, innovation and integrity, with a passion for our brand and China’s baijiu industry. Our philosophy in talent development focuses on offering growth opportunities at all levels within our company and continuing to pass on our years of inherited technical and management experience to younger generations to nurture future leaders in the industry. Led by experienced experts like Mr. Zhu Guojun, who has more than 20 years of experience in baijiu making with profound understanding of industry expertise and unique insight into technological innovation, we have cultivated a number of high-quality technical and skilled talents who are familiar with and adept at our baijiu making techniques, providing strong support for our long-term development.

OUR GROWTH STRATEGIES

We plan to implement the following strategies to achieve our long-term goals.

Continue to enhance brand awareness and recognition

As a leading baijiu company in China with strong growth momentum and influential brands, we will further devote our efforts to brand building to enhance our brand recognition and consumer engagement.

We intend to develop brand promoting strategies highlighting our product quality while tailoring to the characteristics of our different baijiu brands and target consumer groups. We plan to continue to drive brand awareness of *Zhen Jiu* to reinforce its brand message to further penetrate the national market, advancing *Li Du* as a distinctive and premium baijiu brand that embodies its rich heritage, expanding the influence of our *Xiang Jiao* brand in the Hunan market, as well as focusing on promoting and marketing our *Kai Kou Xiao* products in the mass market.

We will continue to develop personalized consumer interactions to further enhance user stickiness and brand loyalty. We plan to enhance immersive brand education experiences and hold more distillery tours. Meanwhile, we intend to invest in providing more tailor-made interactive events in broader geographic areas. Approximately [REDACTED]% of the estimated net [REDACTED] of our [REDACTED], or HK\$[REDACTED] million, will be used in future brand building and market promotion.

Further expand our production capacity to strengthen our core competitiveness

Sizable production capacity of sauce aroma baijiu is our core competitiveness that is difficult to replicate, due to the scarcity of premium baijiu production regions and the substantial capital investment needed. We are progressively securing superb terroir suitable for baijiu production and expanding our production facilities to capture the growth potential in the large and growing baijiu market. By 2024, we expect to gradually increase our annual production capacity of sauce aroma base liquor by 16,600 tons. See “– Production Facilities – Planned Production Capacity Expansion.” Approximately [REDACTED]% of the estimated net [REDACTED] of our [REDACTED], or HK\$[REDACTED] million, together with funds from our operation, will be used to fund these subsequent expansions and new constructions. By continuing to expand our production capacity of sauce aroma base liquor, we will gradually enlarge our base liquor reserve with more mellow texture and pleasant flavors gained through aging. This growing strategic asset will enable us to further enrich our product offerings and boost our long-term growth, especially at the higher price range. In addition, we will continue to invest in upgrading facilities and equipment to achieve a greater level of digitalization and intelligence to improve operational efficiency and profitability in the long-term.

BUSINESS

Enhance product development and expand product portfolio

We will continue to develop and launch new products that match with market demand, capitalizing on our deep insights into consumers’ demand and market trends that we have gained over the years. We intend to expand our product sales to penetrate more regions, and at the same time enhance consumer retention and stickiness. We plan to expand our product portfolio through the launch of compelling new baijiu products with a focus on the ones targeting high-spending consumers, such as vintage sauce aroma baijiu products, as well as the enrichment of existing product series to offer a wider range of choices of diversified flavors that we meticulously blended. Meanwhile, we also intend to differentiate our product offerings by rolling out customized and collector’s edition products featured with cultural elements and creative ideas, catering to the evolving consumer preferences and personalized consumer needs. To this end, we plan to strengthen our collaborations with reputable universities and research institutions to develop new products with diverse flavors. Our *Zhen Jiu* and *Li Du* brands will continue to adopt the premiumization strategy and launch more high-end products.

Continue to expand our sales network

In the meantime, we seek to increase the density of our existing distribution network. We will continue to focus on key sales territories while further optimizing the control covering our sales network with the aim to provide consumers with improved service and a more satisfying consumer experience. Additionally, we intend to continue to expand consumer coverage through our planned investment in sales channels expansion. On the one hand, we will strengthen the partnership with our distribution partners to broaden our distribution network, covering more points-of-sales such as tobacco and baijiu stores. On the other hand, we seek to attract and engage prospective consumers and forge lasting connections with loyal existing consumers through our offline featured stores. We plan to continue to mobilize our on-the-ground sales team to support our sales networks and engage our end consumers. Furthermore, we aim to enhance our sales channels by increasing investment to digitalization across our entire supply chain to achieve efficient sales and distribution management.

Solicit and retain quality talents

We will continue to attract, train and motivate talent and we endeavor to achieve business success alongside with our employees’ career advancement. In particular, we plan to recruit and foster talent specialized in state-of-the-art baijiu-making techniques and product innovation to develop new baijiu products that meet consumers’ evolving preferences and tastes. In addition, we intend to continuously foster our corporate culture, create pleasant working environments, and improve our talent training system to help employees achieve self-worth and accomplishment.

Commit to sustainable development

Most of the raw materials for our baijiu are often sourced and made locally which deeply connects us to the communities where we live and work. The production of superior baijiu products is dependent on a healthy environment and thriving communities. We have unwavering commitment to sustainable development as we strive to build resilience with a sense of responsibility and a long-term perspective. See “ - Environmental, Social and Governance - Environmental Sustainability” for details.

BUSINESS

OUR BRANDS AND PRODUCTS

We operate four major baijiu brands in China, including our flagship brand *Zhen Jiu*, a thriving brand *Li Du*, as well as two regional leading brands *Xiang Jiao* and *Kai Kou Xiao*. Through these brands, we build on and promote traditional Chinese baijiu culture by developing a broad selection of fragrant, mellow baijiu products with diverse aroma profiles.

We position our four baijiu brands by targeting different consumer preferences and geographic areas in China. For *Zhen Jiu*, we primarily target sauce aroma baijiu lovers across different locations who crave for premium, quality sauce aroma baijiu products. For *Li Du*, we offer premium and above mixed aroma baijiu products primarily in Jiangxi, and are expanding our market coverage across China. *Xiang Jiao* and *Kai Kou Xiao* are two regional leading brands in the Hunan market with diversified aroma profiles and broad product offerings at different price points.

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

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except percentages)</i>					
<i>Zhen Jiu</i>	1,345,546	56.1	3,487,573	68.4	3,822,696	65.3
<i>Li Du</i>	359,225	15.0	649,954	12.7	886,850	15.1
<i>Xiang Jiao</i>	394,879	16.5	605,569	11.9	712,791	12.2
<i>Kai Kou Xiao</i>	172,033	7.1	256,579	5.0	338,675	5.8
Others*	127,232	5.3	101,918	2.0	94,905	1.6
Total	2,398,915	100.0	5,101,593	100.0	5,855,917	100.0

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

The following table sets out a breakdown of our revenue and as a percentage of total revenue by aroma type for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except percentages)</i>					
Sauce aroma	1,430,262	59.6	3,740,225	73.3	4,182,280	71.4
Strong aroma	417,285	17.4	485,341	9.5	552,066	9.4
Mixed aroma	551,368	23.0	876,027	17.2	1,121,571	19.2
Total	2,398,915	100.0	5,101,593	100.0	5,855,917	100.0

Zhen Jiu

We named our flagship baijiu brand *Zhen Jiu*, or “Treasure of Liquor” in English, in 1986, inspired by the praise from a former vice premier of China who tasted our baijiu. The praise was made after the key

BUSINESS

national technical development project to produce high-quality sauce aroma baijiu in Guizhou’s Zunyi region succeeded after years of tireless efforts. Rooted in the traditional Chinese baijiu culture, *Zhen Jiu* has grown to become the fifth largest sauce aroma baijiu brand in terms of revenue in China in 2021, and achieved the fastest growth among the top five sauce aroma baijiu brands in China in the same year, according to Frost & Sullivan. One of *Zhen Jiu*’s trademarks was recognized as China Well-known Trademark in 2011.

At *Zhen Jiu*, we focus on making premium sauce aroma baijiu products. Sauce aroma baijiu is a fragrant distilled sorghum liquor named for a hint of umami flavors commonly found in the flavor of soy sauce – it is a mellow liquor, with a layered taste of herbs and fermented beans, and a long aftertaste. While experiencing rising popularity among consumers, sauce aroma baijiu, especially that of top quality, has been in scarcity within China’s baijiu market due to its uniqueness, and high quality requirements for baijiu-making process and ecological environments. To date, we have successfully launched various sauce aroma baijiu products blended with different recipes from mid-range product Lao Zhen Jiu (老珍酒) to premium product Zhen 15 (珍十五) Series, and further to deluxe product Zhen 30 (珍三十) Series that appeal to consumers with different preferences across China.

Leveraging the broad recognition of our popular products, we developed product series to better familiarize consumers with the high quality and distinctive features of our products and to increase market acceptance. Taste, texture and the corresponding sales channels of different product series under the same brand vary. Within the same product series, we have multiple versions catering to the consumers needs with the standard version as the core offering. Different versions have slightly different flavors, with varied packaging and price points tailored to different sales channels and geographic areas. For example, Zhen 15 Series includes, among others, Zhen 15 standard version (珍十五標準版), Zhen 15 Black & Gold version (珍十五黑金版) and Zhen 15 Collector’s version (珍十五收藏版). We also from time to time roll out stylish *Zhen Jiu* product series for special occasions or promotion events, featuring popular topics such as the Chinese zodiac and other cultural and creative ideas to meet marketing needs. Our “Zhen Jiu – tiger-shaped bottle with gold-inlay inscription” (珍酒錯金銘文虎) launched in 2022, for example, received wide market recognition and won the first place in the 2022 Most Collectible Year of the Tiger Chinese Zodiac Wine Contest launched by Sina Finance and Microbrew. We launched certain customized *Zhen Jiu* product versions tailored at the request of selected distributors of strategic importance. The customized versions are designed and produced based on distributors’ special requirements for the taste, quality and packaging of baijiu products and can only be sold exclusively by such distributors. For the purpose of strengthening our brand identity and better managing different sales channels, we have gradually reduced the launch of customized product versions since 2022. Set out below are details of our representative *Zhen Jiu* products:

Product	Year of Product Launch	Sample Product Picture	Aroma Profile	ABV	Recommended Retail Price Per Volume of 500ml ⁽¹⁾
Zhen 30 (珍三十) Series	2012		Sauce Aroma	53%	RMB1,888-1,999

BUSINESS

Product	Year of Product Launch	Sample Product Picture	Aroma Profile	ABV	Recommended Retail Price Per Volume of 500ml ⁽¹⁾
Zhen 15 (珍十五) Series	2016		Sauce Aroma	53%	RMB799-999
Lao Zhen Jiu (老珍酒) and Zhen 5 (珍五)	2016 (Lao Zhen Jiu)/2014 (Zhen 5)		Sauce Aroma	53%	RMB168-298
Stylish Zhen Jiu Series	2021		Sauce Aroma	53%	RMB1,667

Note:

(1) The price ranges listed are for representative product versions within the product series.

We take pride in the refined and delicate taste with lingering aftertaste, and the full-bodied texture of our *Zhen Jiu* products. During the Track Record Period, we had received a number of awards and recognitions for our representative *Zhen Jiu* products. For example, Zhen 30 (珍三十) Series and Zhen 15 (珍十五) Series, our representative premium sauce aroma baijiu products, were awarded Double Gold Medal and Gold Medal at San Francisco World Spirits Competition in 2022, respectively.

In 2020, 2021 and 2022, we generated revenue of RMB1,345.5 million, RMB3,487.6 million and RMB3,822.7 million from *Zhen Jiu* products, respectively, representing 56.1%, 68.4% and 65.3% of our total revenue during the same periods.

Li Du




Li Du is a thriving brand focused on producing and marketing premium and above mixed aroma baijiu products to consumers. Setting out in 1955, the brand *Li Du* was established to honor its origin from Lidu, Jiangxi, an ancient town in China that is steeped in its long-standing tradition of making baijiu. In 2002, an ancient baijiu historical site was discovered during the renovation of our distillery in Lidu, Jiangxi, which traced the history of Lidu liquor back to Yuan Dynasty. This ancient baijiu distillery site was further accredited as one of Major National Historical and Cultural Sites Protected in 2006.

At *Li Du* we primarily offer a selected portfolio of premium and above mixed aroma baijiu products. Our *Li Du* products feature a strong fragrance, rice-flavor beginning taste, light mid-palate and sauce-flavor

BUSINESS

aftertaste. The unique, layered tastes of our *Li Du* products are partially shaped by the distinct group of micro-organisms in the fermentation environment, gradually formed in the long history of baijiu making in the town of Lidu. We believe our long-established traditional techniques for making *Lidu* baijiu, which were awarded as Intangible Cultural Heritage of Jiangxi, distinguish ourselves from other baijiu brands.

Set out below are details of our representative *Li Du* products:

Product	Year of Product Launch	Sample Product Picture	Aroma Profile	ABV	Recommended Retail Price Per Volume of 500ml
Li Du Sorghum 1308 (李渡高粱1308)	2021		Mixed Aroma	52%	RMB2,308
Li Du Sorghum 1955 (李渡高粱1955)	2015		Mixed Aroma	52%	RMB1,160
Li Du Sorghum 1975 (李渡高粱1975)	2017		Mixed Aroma	50.8%	RMB690

We have achieved initial market acceptance for our *Li Du* products, as evidenced by a number of awards and recognitions. Our popular products Li Du Sorghum 1955 (李渡高粱1955) and Li Du Sorghum 1308 (李渡高粱1308) won the Grand Gold Medals from the Spirits Selection by Concours Mondial de Bruxelles in 2015 and 2019, respectively. In addition, Li Du Sorghum 1955 (李渡高粱1955) is widely recognized as one of the most premium package-free baijiu products in China, according to Frost & Sullivan.

In 2020, 2021 and 2022, we generated revenue of RMB359.2 million, RMB650.0 million and RMB886.9 million from *Li Du*, respectively, representing 15.0%, 12.7% and 15.1% of our total revenue during the same periods. While we derived a majority of our revenue for *Li Du* from Jiangxi during the Track Record Period, we have continued to broaden our geographic reach in China, driving *Li Du*'s long-term growth.

Xiang Jiao

Synonymous with the rich cultural heritage of baijiu-making in Hunan, *Xiang Jiao* is a premium baijiu brand with substantial local presence and strong brand awareness in Hunan, awarded the title of Hunan Provincial Governor Quality Award in 2012 and China Well-known Trademark in 2012. At *Xiang Jiao*, we

BUSINESS

offer a wide range of high-quality baijiu products with diverse aroma profiles, covering strong aroma, sauce aroma and mixed aroma. This strategic product portfolio has allowed us to cover a wider range of consumer preferences and markets. Set out below are details of our representative *Xiang Jiao* products :

Product	Year of Product Launch	Sample Product Picture	Aroma Profile	ABV	Recommended Retail Price Per Volume of 500ml
Xiang Jiao Long Jiang (湘窖·龍匠) Series	2019		Sauce Aroma	53%	RMB699 – 1,699 ⁽¹⁾
Xiang Jiao Yao Qing (湘窖·要情酒)	2012		Mixed Aroma	50.8%	RMB1,699
Xiang Jiao Red Diamond (湘窖酒·紅鑽)	2012		Mixed Aroma	50.8%	RMB868
Xiang Jiao Crystal Diamond (湘窖酒·水晶鑽)	2003		Strong Aroma	52%	RMB599

Note:

(1) The price range listed is for representative product versions within the product series.

During the Track Record Period, *Xiang Jiao* received a variety of awards and recognitions for its quality and tastes. In 2018, Xiang Jiao Red Diamond (湘窖酒·紅鑽) was awarded the Grand Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles.

In 2020, 2021 and 2022, we generated revenue of RMB394.9 million, RMB605.6 million and RMB712.8 million from *Xiang Jiao*, respectively, representing 16.5%, 11.9% and 12.2% of our total revenue during the same periods. During the Track Record Period, substantially all of our revenue for *Xiang Jiao* were generated from Hunan.

BUSINESS

Kai Kou Xiao

Recognized as China Well-known Trademark in 2010, *Kai Kou Xiao* is an established baijiu brand in Hunan with a focus on mid-range markets. We name ourselves *Kai Kou Xiao*, or “A Big Smile” in English, because we aspire to spread the joy of life through our baijiu products. Having built a brand name synonymous with a taste of bliss, we strategically focus on promoting and marketing our *Kai Kou Xiao* products in the local market in Hunan, in which we have achieved substantial market acceptance.

Under the brand of *Kai Kou Xiao*, we mainly offer strong aroma, and sauce aroma baijiu products which have achieved substantial mass market acceptance. Set out below are details of our representative *Kai Kou Xiao* products:

Product	Year of Product Launch	Sample Product Picture	Aroma Profile	ABV	Recommended Retail Price Per Volume of 500ml
Kai Kou Xiao 15 (開口笑酒15)	2007		Strong Aroma	50.8%	RMB358
Kai Kou Xiao 9 (開口笑酒9)	2007		Strong Aroma	50.8%	RMB198
Kai Kou Xiao Fu Jiang 20 (開口笑福醬酒·20)	2020		Sauce Aroma	53%	RMB699

In 2020, 2021 and 2022, we generated revenue of RMB172.0 million, RMB256.6 million and RMB338.7 million from *Kai Kou Xiao*, respectively, representing 7.1%, 5.0% and 5.8% of our total revenue during the same periods. During the Track Record Period, substantially all of our revenue for *Kai Kou Xiao* are generated from Hunan.

Other Brands and Products

During the Track Record Period, we also produced, marketed and sold baijiu products under other brands, which are not our strategic focus of development. In 2020, 2021 and 2022, we generated revenue of RMB127.2 million, RMB101.9 million and RMB94.9 million from other brands, respectively, representing 5.3%, 2.0% and 1.6% of our total revenue during the same periods. For example, we operate another baijiu brand *Shao Yang*, which is consumed and loved by local communities in Hunan in their everyday life. With a selection of quality yet affordable strong aroma baijiu products, *Shao Yang* is

BUSINESS

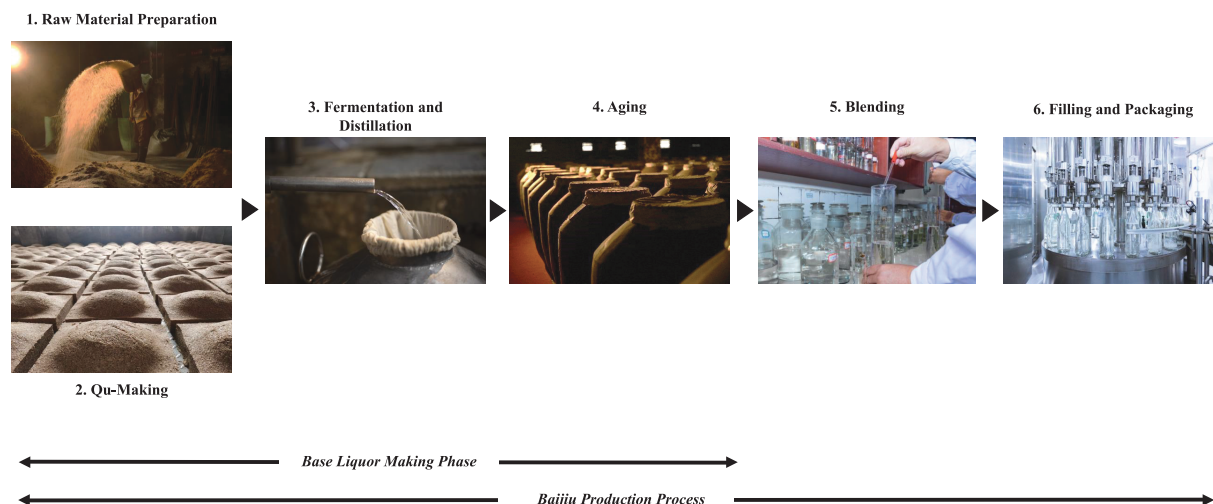
appealing to the mass market. The recommended retail prices of our main *Shao Yang* products are below RMB100.

SEASONALITY

Our business is subject to seasonal fluctuations. We typically experience higher product 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.”

PRODUCTION PROCESS

Although baijiu is a fermented beverage like beer and wine, baijiu’s brewing process is much more complex. Baijiu is made mainly from a mixture of grains such as sorghum, wheat, glutinous rice, water and many other ingredients such as qu that can contain hundreds of distinct yeasts, mods, and microorganisms, also play their roles in the brewing process. This exact, delicate collaboration generates a synergistic effect that enhances the flavor and aroma of baijiu. Rather than the flavor of the raw materials, the complex process of baijiu making, complemented by superb terroir, influences flavor and aroma. Baijiu production technique is a precious national heritage of China, and the baijiu products nowadays are the result of gradual technical advancement and changing consumer preferences. While the raw materials and specific production procedures may vary depending mainly on the particular aroma type of the baijiu being produced, the production process may nonetheless be roughly divided into six pivotal steps: raw material preparation, qu-making, fermentation and distillation, aging, blending as well as filling and packaging. Base liquor is made in the first four steps following traditional procedures and techniques. The base liquor production process varies among different aroma profiles.



Raw Material Preparation

Baijiu is typically made from grains. The aroma that the finished baijiu carries will be influenced by the types of grains used. Sauce aroma baijiu like our *Zhen Jiu* products utilizes heavier, sturdier grains with high starch content, specifically the locally grown red tassel sorghum. Our mixed aroma *Li Du* products utilize a mixture of rice and sorghum to derive its unique, layered tastes. To make strong aroma baijiu

BUSINESS

including some of our *Xiang Jiao* and *Kai Kou Xiao* products, a mixture of grains including rice, wheat, glutinous rice and sorghum is used to derive the strong fragrance.

Grains are ground in order to release starch with the purpose of increasing the steaming and microbial correlation area and obtaining a desirable cohesion of mass. This step plays an important role in the quality of baijiu, since soft grinding leads to ineffective saccharification and harsh grinding influences the flavor of baijiu.

Qu-making

Serving as the fermentation initializer, qu is the most important element in making baijiu. Different types of qu will make disparate tasting variations of baijiu. We typically use big qu which is constructed from wheat to produce our products. Once these core raw materials are successfully combined, they are mixed with water and a paste is formed. When ready, they will be shaped into bricks, which are then stacked in a warm, enclosed room for 40-45 days to allow sufficient time for big qu to ferment. Afterwards, they will continue to be stored for four to six months before being used in the next steps.

Each pressed brick of qu can contain hundreds of distinct yeasts, mods, and microorganisms, all naturally cultivated from the air. The role of qu is to saccharify the starches in the grains so that it ferments carbohydrates into sugars, and then sugars into alcohol. Added to the mash of grains and water, qu supports a quick conversion of starch into alcohol, allowing the final liquor to reach high levels of alcohol by volume.

Qu can create subtle differences in taste and recipes are the most carefully guarded trade secrets in China’s baijiu industry. We inherit traditional qu-making techniques for most of our sauce aroma baijiu products. In particular, high temperature exceeding 60°C is used in our qu-making process, allowing thermophilic microorganisms to grow and thrive, which eventually leads to the refined and delicate taste with lingering aftertaste and full-bodied texture of our sauce aroma baijiu.

Fermentation and Distillation

Upon completion of the qu-making process, the bricks of qu will be crushed and ground down to powder. The powdered qu is then added to the processed grains, along with clear water. The grains, qu and water will then mix transforming the starch in the grains into sugar. Once this process is complete, fermentation of baijiu then begins.

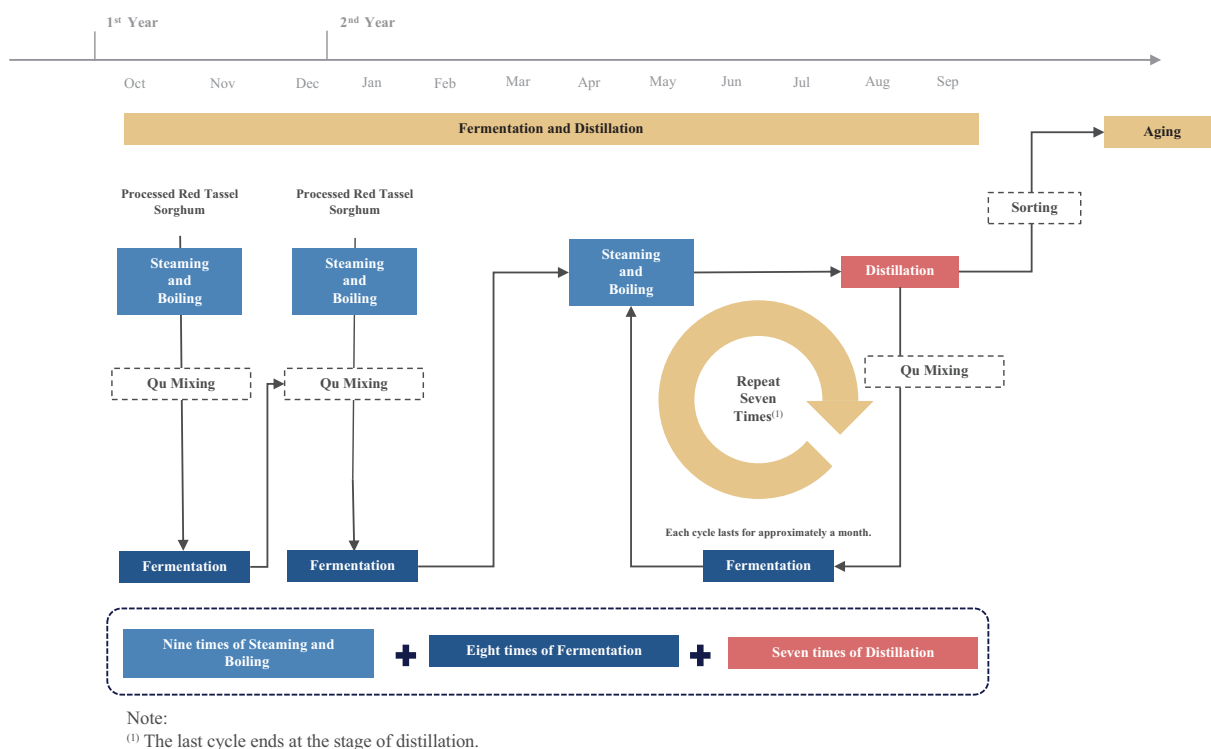
Baijiu fermentation varies between different distilleries and aroma types. For example, with respect to our mixed aroma *Li Du* baijiu, we place the grain mixture, qu and water in fermentation pits. The group of microorganisms helps to create a unique flavor of our *Li Du* baijiu. We use the traditional back-slopping technique for a better control of the fermentation process. By adding the fermentation residue during the beginning of alcoholic fermentation, the back-slopping technique allows optimal composition of the microbial communities, which in turn increases the success of natural fermentation.

The purpose of distillation is to capture the fermented alcohol from the mixture of grains, qu and water. These mixtures are heated by steam, and the vapors that arise are captured and bottled by a distillate. After these vapors are captured, they are left to condense into liquid.

BUSINESS

Special fermentation and distillation process for high-quality sauce aroma baijiu

The making of base liquor for quality sauce aroma products under *Zhen Jiu* brand requires a complex and time-consuming fermentation and distillation process. As illustrated in the following diagram, the entire fermentation and distillation process usually commences in October and takes approximately 11 months to finish. During the entire process, the grains are steamed and cooked nine times, between which the fermentation process are repeated eight times, followed by seven times of distillation. Particularly, in contrast to strong aroma and mixed aroma baijiu, sauce aroma baijiu is not diluted. This complex process strengthens the sauce flavor and improves the quality of the distilled liquor.



Aging

The freshly-made distillates are rated and sorted by experienced technicians according to their round of distillation, type, alcoholic strength, and physical and chemical characteristics. Distillates with similar characteristics are grouped together and stored in jars. The jars are then put into barns for preservation and labeled with information such as the year of production, date, barn number, jar number, workshop, responsible staff members, ratings, round, characteristics, taste and quantity. We adopt a digitalized base liquor management system that leverages the digital simulation technologies to improve base liquor management capabilities. See “– Digital Infrastructure.” The aging process will gradually affect the sensory properties and the composition of flavor compounds of the base liquor. The base liquor in the jars is then left to age.

Blending

Once the distilled liquor stabilizes through storage, it becomes base liquor ready to be blended into finished products. Base liquors of complementary aroma and class are used for blending. Our blending experts carry out

BUSINESS

multiple rounds of small-scale blending in accordance with our production standards and recipes to evaluate and determine the ideal combination. Blending involves taking basic distillates of different types, alcoholic strengths, and duration of storage, taken from various batches of production, based on our recipe. Large-scale blending is then carried out with the same proportional parameters as small-scale blending. In the process, in addition to laboratory analysis, sensory evaluation is used to select the best combination and define the premium profile and introduce a sensory definition in quality control. When this has been completed, the blended liquor will be stored for a certain period of time before filling and packaging. Specifically, the blending of sauce aroma baijiu requires longer aging and storage time as well as a larger number of basic distillates and more rounds of blending as compared to the blending of strong aroma and mixed aroma baijiu.

Blending base liquor of various characteristics at different formulas creates a variety of flavors in finished baijiu products, and therefore the recipes for baijiu blending are usually the core know-how of distilleries. The blending process is a combination of accumulated know-how, traditional techniques, and the experience of seasoned blending technicians. We dedicate a product development team consisting of industry veterans to developing baijiu recipes that honor the uniqueness and prestige of our baijiu products and accumulate know-how to constantly improve the quality of our products. For details on our product development efforts, see “– Product Development.” In addition, blending techniques and know-how are of paramount importance in ensuring a consistent level of baijiu quality and flavor. Being fully aware of the significance of blending techniques and baijiu recipes to our production process and the quality of our baijiu products, we have developed and implemented stringent policies to safeguard against leakage of our blending techniques and know-how. We only allow our core technical personnel to have access to our blending techniques and know-how. We entered into confidentiality and non-competition agreement with our core technical personnel, prohibiting them from disclosing or making use of our trade secrets and other confidential information, including know-how, at any time during or subsequent to their performance of services for our company. In the blending process, we assign technical personnel to different groups with different functions. Each group is responsible for its own part of production and is required not to communicate with members of other groups regarding the production techniques. We also use code names for sensitive information involved in the production process, for example, the baijiu samples, and only designated personnel know how to interpret the code names.

Filling and Packaging

The filling and packaging process includes such procedures as blend intake, filling, marking and so on. The bottles used are expected to be flawless and to meet the requirements for uniform thickness and size. The liquor blend to be put into the bottles should first undergo quality inspection to ensure that it is pure, free from turbidity and suspended solids, and then checked against the specifications required for each specific variety and batch, including with regard to the net weight of liquor. A specially designed tag coupled with an anti-counterfeiting label is then attached to the bottle symmetrically and smoothly, with information including our brand name, date of production, batch number, and serial number of the bottle and production venue codes. Selected premium and above products are sealed with anti-counterfeiting caps embedded with RFID chip to track and trace individual products through the supply chain and provide a higher level of anti-counterfeiting protection. The bottles of liquor are then put into cartons or boxes, ensuring that they are packaged the right way up, with the appropriate accessories for the stipulated variety and quantity. The ends of the cartons are then neatly sealed with tapes and, finally, straps are looped around the cartons for transportation. We adopt QR code technology to the packaging of virtually all of our

BUSINESS

products to improve whole process traceability management from product manufacturing, warehousing, logistics to market circulation.

PRODUCTION FACILITIES

We produce the baijiu products we sell in our production facilities. As of the Latest Practicable Date, we had six production facilities in operation in China. We strategically locate our production facilities in geographic regions suitable for baijiu making, such as Zunyi, Guizhou, Lidu, Jiangxi, and Shaoyang, Hunan. We believe that the mild, humid climate, favorable geographic conditions and abundant natural resources, such as sufficient grains and plentiful fresh water within these geographic regions have enabled us to secure quality taste and texture of our baijiu.

Our production facilities consist of qu-making plants, fermentation and distillation plants, blending plants, and filling and packaging plants, corresponding to the pivotal steps of baijiu-making. These processing plants are equipped with machineries, fermentation pits, barns, as well as bottling and packaging lines and warehouses. Consistent with the industry norm, the capacity of base liquor production is a key factor of our production capacity especially for our premium sauce aroma baijiu. We also procure some base liquor for the blending from collaborated distilleries. For details of base liquor produced in our own plants and in the designated plants of selected third-party, see “– Production Process – Base Liquor Production.” Base liquor needs to be blended and packaged in our blending plants, and filling and packaging plants before becoming baijiu products.

The following table sets out certain details of our production facilities in operation as of the Latest Practicable Date.

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

During the Track Record Period, we gradually expanded our production capacity according to our expansion strategy and our forecast of market demand. In 2020, the increase in our production capacity was 2,600 tons for *Zhen Jiu* and *Xiang Jiao*. We continued to expand our production capacity by 14,700 tons in 2021 for *Zhen Jiu*, *Li Du* and *Xiang Jiao*. In 2022, the growth in our production capacity amounted to 14,500 tons for *Zhen Jiu* and *Li Du*.

BUSINESS

Our production facilities are equipped with advanced facilities and equipment to streamline and optimize the entire production process. We have continued to digitalize and intelligentize our baijiu production at our production facilities, from qu making to distillation, and from liquor blending to product packaging, which allows us to improve our operational efficiency. For example, we installed automated production lines at a number of our production facilities, which enable the adding of water to ground raw materials, cooling the steamed raw material for mixing with qu, loading high-temperature materials into fermentation pits, and distilling liquor, all in an automatic manner. In addition, we also benefit from the precision and accuracy that our automated production line enables, which allows us to ensure the consistency of our product quality and tastes. Our *Zhen Jiu* (Shi Zi Pu) (十字鋪), *Li Du* II and *Xiang Jiao* (Jiang Bei) (江北) production facilities also house our laboratories, where we carry out quality control tests and baijiu product development for each brand.

We have a stringent quality control system in place, enabling us to effectively manage product quality and safety risks throughout the baijiu production process. For further details of our quality control system over baijiu production, see “– Quality Control.”

Base Liquor Production

In 2020, 2021 and 2022, we produced 8,959 tons, 11,058 tons and 25,694 tons of base liquor, respectively. The following table sets forth the designed production capacity, actual output, both in terms of tons of base liquor, and utilization rate by brand for the relevant periods.

	For the year ended December 31,								
	2020			2021			2022		
	Designed capacity ⁽¹⁾	Actual output ⁽²⁾	Utilization rate ⁽³⁾	Designed capacity ⁽¹⁾	Actual output ⁽²⁾	Utilization rate ⁽³⁾	Designed capacity ⁽¹⁾	Actual output ⁽²⁾	Utilization rate ⁽³⁾
	<i>(tons, except percentages)</i>								
<i>Zhen Jiu</i> ⁽⁴⁾	4,800	4,737	98.7%	7,000	7,222	103.2% ⁽⁵⁾	21,000	20,857	99.3%
<i>Li Du</i>	1,200	1,049	87.4%	1,500	1,292	86.1%	2,000	1,733	86.7%
<i>Xiang Jiao</i> and <i>Kai</i>									
<i>Kou Xiao</i> ⁽⁶⁾	4,400	3,173	72.1%	4,800	2,544	53.0%	4,800	3,104	64.7%
Total	10,400	8,959	86.1%	13,300	11,058	83.1%	27,800	25,694	92.4%

Notes:

- (1) During a given period, designed capacity is calculated as the number of fermentation and distillation plants multiplied by the estimated production capacity for each of the fermentation and distillation plants, which is estimated based on the production capacity designed for the relevant fermentation and distillation plant and the historical output of fermentation and distillation plant with similar size, in such period.
- (2) During a given period, actual output is calculated by converting the amount of produced base liquor with various ABV to the amount of base liquor with standard ABV in consistency with the industry norm.
- (3) During a given period, utilization rate is calculated as the actual output for the relevant period divided by the designed capacity for such period.
- (4) The annual production cycle of *Zhen Jiu* is typically from October to September of the following year with the majority output generated in the following year. As a result, the designed capacity for a given period refers to the designed capacity for the production cycle that ends within such period, namely, the designed capacity when such production cycle commences in October of the previous year.
- (5) The actual output slightly exceeded the designed capacity for *Zhen Jiu* in 2021, primarily because there was a moderate amount of rainfall and relatively more sunny days in Guizhou’s Zunyi region throughout the year of 2021, which was suitable for the microorganism growth in the fermentation process and provided preferable production conditions for baijiu-making.

BUSINESS

- (6) During the Track Record Period, we used the same production facilities and equipment to produce base liquor for *Xiang Jiao*, *Kai Kou Xiao* and certain other baijiu brands under Hunan Xiangjiao and as a result, the designed capacity, actual output and utilization rate with respect to base liquor for these brands are inseparable.

We believe that we in general sufficiently utilize our production facilities for *Zhen Jiu* and need additional production facilities to capture future growth opportunities.

Sizable production capacity of sauce aroma baijiu is challenging to establish due to the scarcity of premium baijiu distillery regions, the intricate processes involved in making sauce aroma baijiu, and the lengthy construction process. Leveraging our proven track record of supporting local economy and promoting sustainable development, we are progressively securing superb terroir suitable for baijiu production and expanding our production facilities to capture the growth potential in the large and growing baijiu market and strengthen our core competitiveness. Our sizable and increasing sauce aroma base liquor production capacity enables us to further enrich our product offerings and boost our long-term growth, especially at the higher price range.

Collaborated Production of Base Liquor

To expand our output in meeting the increasing market demand, we also collaborated with selected third-party distilleries to produce base liquor for blending of sauce aroma products for us during the Track Record Period. During the Track Record Period, we worked with six collaborated distilleries and we have worked with most of them for more than four years and had established stable relationships. We adopt the co-production model for base liquor production in order to secure the priority supply of base liquor production capacity from the collaborated distilleries, support rapid growth of orders and revenue while increasing our market share, have a better control on the quality and taste of base liquor, and better manage our capital expenditure.

We implement strict selection criteria for the collaborated distilleries. Before engaging a new collaborated distillery, we pre-screen candidates based on, among others, their certificates and qualifications, previous operational experience of base liquor production, production capacity, product quality, food safety and hygiene conditions, reputation and credit. Particularly, the ecological environment of the distillery is one of the most essential factors we consider during the selection process, since the quality of base liquor is closely related to the local ecological environment of the distillery, and the production process has strict requirements and natural dependence on water quality, soil, air, climate and biodiversity. In addition, the stability of the distillery’s capacity is also a key criterion we focus on to ensure continuous production and long-term cooperation. We inspect product samples of those candidates who pass our pre-screening. Depending on the pre-screening and sample inspection results, we conduct on-site inspections to ensure that they and their products comply with our quality standards. We then evaluate each of the candidates and we collaborate with distilleries of higher rating.

We usually enter into base liquor collaboration agreements with the selected collaborated distilleries, typically for a five-year period. Pursuant to these agreements, the collaborated distilleries are contractually required to produce base liquor strictly in accordance with our specifications and requirements, and other national or industry standards. We designate certain plants of the collaborated distilleries for the priority supply of base liquor to us and we are entitled to purchase all base liquor produced in such plants. We generally communicate our planned procurement volume with our collaborated distilleries in advance. There is

BUSINESS

no minimum purchase commitment for us pursuant to the agreements with collaborated distilleries. During the Track Record Period, we secured 17,000 tons of annual base liquor production capacity for the production of sauce aroma baijiu products. Historically, a majority of such production capacity was utilized for the production of base liquor for our *Zhen Jiu* brand and a small portion was utilized for our *Xiang Jiao* brand. Specifically, we take the following measures to ensure the quality of collaborated production: (i) conducting pre-job training for production personnel regarding production processes, quality identification of raw and auxiliary materials, food safety, etc.; (ii) assigning experienced technical personnel for on-site supervision and management over the critical procedures in qu-making, fermentation and distillation in the designated plants; and (iii) reviewing inspection reports before each shipment of base liquor. If the base liquor delivered by the collaborated distilleries fails to meet the standards and requirements set forth in our collaboration agreements, we are entitled to reject such products. Once the applicable standards and requirements are met, we blend base liquor purchased under the collaboration agreements together with our own base liquor to produce the final baijiu products based on our proprietary recipes. We do not share our baijiu recipes with any of our collaborated distilleries. For more details, see “– Production Process – Blending.”

Set out below is a summary of our standard base liquor collaboration agreement that we enter into with the collaborated distilleries:

- *Terms and termination.* The base liquor collaboration agreement typically has a term of five years with renewal options, subject to early termination when one party is unable to continue to perform due to force majeure factors, bankruptcy, closure of business or when the parties agree to terminate.
- *Priority supply.* We designate certain plants of the collaborated distilleries for the priority supply of base liquor to us. During the term of the agreement, we have priority to purchase all of base liquor produced in those designated plants since the commencement of the cooperation which cannot be sold to other purchasers without our permission. The collaborated distilleries are required to arrange for separate containers for the storage of base liquor of which we are entitled to priority supply until shipment is completed. Moreover, the collaborated distilleries are required to provide us with complete operating data relating to the production of base liquor in these designated plants, including production volume, labor costs, utility consumption, raw material cost, etc.
- *Production.* The collaborated distilleries are responsible for purchasing all raw materials and auxiliary materials required for base liquor production, providing plant and equipment, and hiring and managing production personnel.
- *Supervision and quality control.* We are entitled to assign three to five technical personnel to supervise and manage the production process at the designated plants, and the collaborated distilleries shall cooperate with their inspections and instructions. Collaborated distilleries are responsible for maintaining all required qualifications and licenses, and meeting all requirements for product quality, production safety and environmental protection, etc. We are otherwise entitled to take appropriate measures to rectify any misconduct.
- *Brand and intellectual property.* The collaborated distilleries are not allowed to advertise or sell any product in our names or brands, and shall not infringe our intellectual property rights.

BUSINESS

- *Payment settlement.* During the term of the agreement, the settlement price is determined between us and the collaborated distilleries according to the quantity, quality and grade of the base liquor produced. The specific delivery terms are subject to the purchase order confirmed by both parties.
- *Indemnification.* The collaborated distilleries shall be responsible and indemnify us for any damages relating to the defective products.

The collaborated distilleries provided us with approximately 7,404 tons, 20,546 tons and 7,817 tons of sauce aroma base liquor in 2020, 2021 and 2022, respectively. The significant increase in our procurement of sauce aroma base liquor from collaborated distilleries in 2021 was because we increased procurement of base liquor to support our expansion of production capacity in light of the increasing market demand and the increase in our sales volume. We were able to procure approximately 20,546 tons of base liquor in 2021 from the collaborated distilleries because (i) we have the priority over other customers to procure 17,000 tons of base liquor annually from the collaborated distilleries, and (ii) for the portion exceeding the secured 17,000 tons of production capacity, the collaborated distilleries had sufficient base liquor to supply us due to their storage of base liquor produced and not sold in previous years. During the Track Record Period and up to the Latest Practicable Date, we have no material disputes or litigations with our collaborated distilleries and we have not experienced any short of supply in base liquor. As we continue to build additional distilleries to enlarge our production capacity, we expect to reduce our base liquor purchases from collaborated distilleries gradually. During the Track Record Period, none of our Directors, their respective associates, or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of the Company’s issued share capital) had any interest in any of the collaborated distilleries.

Planned Production Capacity Expansion

During the Track Record Period, we gradually expanded our production capacity according to our expansion strategy and our forecast of market demand. We intend to further increase our overall production capacity progressively to satisfy market demand by expanding our existing production facilities and constructing new production facilities. As of the Latest Practicable Date, we had commenced the expansion of three existing production facilities, namely *Zhen Jiu* (Zhao Jia Gou) (趙家溝), *Zhen Jiu* (Mao Tai Zhen Shuang Long) (茅台鎮雙龍) and *Xiang Jiao* (Jiang Bei) (江北), as well as the construction of one new production facility, namely *Li Du* (Zheng Jia Shan) (鄭家山). These planned projects are expected to increase our annual production capacity of base liquor by 26,000 tons by 2024, among which 16,600 tons are for sauce aroma base liquor.

BUSINESS

The following table summarizes details of our planned key production facilities.

<u>Production Facility</u>	<u>Geographic Location</u>	<u>Major Brand(s) Served</u>	<u>Expected Time for Commencement of Commercial Production</u>	<u>Designed Production Capacity of Base Liquor (tons per year)</u>	<u>Expected Capital Expenditure (RMB in millions)</u>	<u>Status as of the Latest Practicable Date</u>
<i>Zhen Jiu</i> (Zhao Jia Gou) (趙家溝) (Expansion)	Zunyi, Guizhou	<i>Zhen Jiu</i>	The third quarter of 2023 to the third quarter of 2024	6,000	1,050	under construction
<i>Zhen Jiu</i> (Mao Tai Zhen Shuang Long) (茅台鎮雙龍) (Expansion)	Zunyi, Guizhou	<i>Zhen Jiu</i>	The third quarter of 2023 to the third quarter of 2024	10,600	1,638	under construction ⁽¹⁾
<i>Li Du</i> (Zheng Jia Shan) (鄭家山)	Lidu, Jiangxi	<i>Li Du</i>	The second quarter of 2023 to the fourth quarter of 2023	5,000	340	under construction ⁽²⁾
<i>Xiang Jiao</i> (Jiang Bei) (江北) (Expansion)	Shaoyang, Hunan	<i>Xiang Jiao</i> and <i>Kai Kou Xiao</i>	The second quarter of 2023	4,400	162	under construction

Notes:

- (1) The first phase of the expansion of *Zhen Jiu* (Mao Tai Zhen Shuang Long) (茅台鎮雙龍) is under construction. In December 2022, we acquired the land use right to a parcel of land for the second phase of such expansion by entering into state-owned construction land use right assignment agreements with the local governmental authorities. See “– Properties – Owned Properties – Land.”
- (2) In January 2023, we entered into a state-owned construction land use right assignment agreement with the local governmental authorities, pursuant to which we acquired the land use right to a parcel of land for *Li Du* (Zheng Jia Shan) (鄭家山). See “– Properties – Owned Properties – Land.”

We expect that the capacity expansion of each of the planned key production facilities above will be funded primarily by the net [REDACTED] from the [REDACTED] and will also be funded by cash generated from our operations. See “Future Plans and Use of [REDACTED] – Use of [REDACTED].”

QUALITY CONTROL

We believe food safety and product quality are of paramount importance to our day-to-day business operations. As such, we are committed to heightened quality control as our business grows.

As of December 31, 2022, our quality control department comprised of 94 employees who have extensive work experience related to food science and quality inspection. Our quality control department oversees the implementation of our organization-wide quality control regime in all material respects of our business operations, and ensures that the quality of our baijiu products complies with the relevant PRC laws

BUSINESS

and regulations and our internal standards and requirements. In particular, we implement stringent food safety and quality control standards and measures throughout our business process, covering supply chain management, production, and logistics and warehousing. Our relentless efforts in food safety and product quality can be exemplified by a number of certifications we are accredited to by reputable certification institutions, including the Hazard Analysis Critical Control Point (HACCP) certification, ISO9001 certification, and Occupational Health and Safety Management System (OHSMS) certification. In addition, Jiangxi Lidu received the 4th Nanchang Mayor’s Quality Award in 2022 for its outstanding performance in quality control.

Quality Control over Supply Chain Management

We regard selection and management of suppliers as an integral part of our quality control over supply chain management. We maintain a list of qualified suppliers, who have a proven record of reliable and stable supply, and we only partner with such qualified suppliers. We implement heightened criteria for selection of our suppliers and we periodically review and evaluate the performance of such suppliers. For details, see the section headed “– Supply Chain Management.” In addition, we carry out batch-by-batch inspection and testing on the quality of raw materials delivered to us. Our suppliers are contractually required to comply with stringent quality standards for raw materials according to applicable laws and regulations as well as our specifications, thereby ensuring quality control and securing consistent flavor of our baijiu products.

Quality Control over Production

We have quality control personnel at each of our production facilities as well as at the headquarters, who are responsible for formulating and implementing our quality control measures during the production process. We require our employees to strictly adhere to the procedures and standards stipulated in the measures to make sure the flavor, quality and hygiene of our baijiu products meet our standards.

In accordance with our quality control measures, we conduct sample check for every batch of raw material we use, work-in-progress such as base liquor, and finished baijiu products. We frequently perform tests for hazardous chemicals including plasticizers, sweeteners and heavy metals in-house, and by reputable third-party institutions when necessary. Throughout the entire production process, our employees are required to strictly adhere to internal protocols and maintain record-keeping for material parameters such as the amount of raw materials used, temperatures of fermented materials and fermentation time. We carry out equipment maintenance and inspections regularly to avoid malfunctions or disruptions. Moreover, equipment and facilities cleaning and disinfection are conducted on a daily basis, minimizing contamination risks. Our production personnel are also required to obtain health certificates and comply with hygiene standards in the workshop by wearing uniforms, working caps and shoes. We have stringent control over access to our production facilities to ensure that our production process is not tampered.

Quality Control over Logistics and Warehousing

We have established collaborations with reputable logistics partners, which have reliable logistics capabilities to ensure fresh raw materials are delivered in time and to our required standards. We check the quantity and quality of raw materials upon delivery. Raw materials that fail to meet our quality standards

BUSINESS

will be returned at the cost of the suppliers. To ensure effective management of daily logistics, we maintain a comprehensive record of goods in transit such as name, responsible supplier, delivery date and shelf life.

We impose strict standards for the storage of different raw materials, work-in-progress and finished products. A dedicated in-house quality control team performs stringent quality checks regularly and monitors the storage and usage status in each warehouses. For example, as grains are sensitive to temperature and humidity, we usually install thermometers and hygrometers in warehouses to closely monitor the storage conditions. We constantly take steps to adjust the ventilation and moisture conditions in our warehouses to secure an optimum storage environment. To ensure the quality of base liquor with age statement, our quality control team keep product samples in accordance with internal protocols and conduct random checks on a monthly basis.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any investigation regarding any of our product quality or production facilities by any governmental authority and we had not encountered any material product safety incident. During the Track Record Period and up to the Latest Practicable Date, we did not have any material product recalls or returns, product liability claims, or customer complaints.

SALES AND DISTRIBUTION

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

BUSINESS

The following table sets forth a breakdown of our revenue and our gross profit margin by sales channels for the periods indicated.

	For the year ended December 31,								
	2020			2021			2022		
	Revenue	Percentage of Revenue	Gross Profit Margin	Revenue	Percentage of Revenue	Gross Profit Margin	Revenue	Percentage of Revenue	Gross Profit Margin
	RMB	%	%	RMB	%	%	RMB	%	%
	<i>(in thousands, except for percentages)</i>								
Distributors									
Distribution									
partners	1,672,982	69.7	46.4	3,265,533	64.0	45.9	3,467,059	59.2	50.0
Featured stores	346,526	14.5	64.6	1,087,623	21.3	68.5	1,283,890	21.9	64.3
Retailers	93,805	3.9	65.3	176,023	3.5	65.0	448,948	7.7	66.0
Subtotal	<u>2,113,313</u>	<u>88.1</u>	<u>50.2</u>	<u>4,529,179</u>	<u>88.8</u>	<u>52.1</u>	<u>5,199,897</u>	<u>88.8</u>	<u>54.9</u>
Direct sales	<u>285,602</u>	<u>11.9</u>	<u>67.5</u>	<u>572,414</u>	<u>11.2</u>	<u>65.0</u>	<u>656,020</u>	<u>11.2</u>	<u>58.5</u>
Total	<u>2,398,915</u>	<u>100.0</u>	<u>52.2</u>	<u>5,101,593</u>	<u>100.0</u>	<u>53.5</u>	<u>5,855,917</u>	<u>100.0</u>	<u>55.3</u>

During the Track Record Period, a majority of our revenue was generated from our distribution partners. In 2020, 2021 and 2022, revenue from distribution partners accounted for 69.7%, 64.0% and 59.2%, respectively, of our total revenue during the periods. The revenue contribution by such distribution partners decreased over time during the Track Record Period primarily because we continued to expand our other distribution and sales channels to drive our product sales and revenue growth.

Gross margin for our distribution partners remained relatively stable at 46.4% and 45.9% in 2020 and 2021, respectively, and subsequently increased to 50.0% in 2022, primarily because we sold more premium and above baijiu products with higher gross margins in 2022. Gross margin for our featured stores increased from 64.6% in 2020 to 68.5% in 2021, primarily due to shifting product mix towards premium and above baijiu products. The gross margin subsequently dropped to 64.3% in 2022 mainly because we provided more sales incentives to store partners amid the COVID-19 pandemic throughout 2022. Gross margin for retailers remained relatively stable during the Track Record Period. Our direct sales gross margin remained relatively stable at 67.5% in 2020 and 65.0% in 2021, and decreased to 58.5% in 2022, primarily because a growing number of mid-range and below baijiu products were sold through such sales channels.

BUSINESS

The following table sets forth a breakdown of our revenue by geographical location for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except percentages)</i>					
Distributors						
Eastern China	557,003	23.2	1,193,141	23.4	1,459,315	24.9
Northern China	74,382	3.1	253,621	5.0	219,923	3.8
Northwestern China	30,585	1.3	88,589	1.7	103,562	1.8
Southern China	131,494	5.5	469,701	9.2	624,792	10.7
Southwestern China	365,490	15.2	735,302	14.4	744,483	12.7
Central China	938,821	39.1	1,727,269	33.9	1,964,951	33.6
Northeastern China	15,538	0.6	61,556	1.2	82,871	1.4
Subtotal	<u>2,113,313</u>	<u>88.1</u>	<u>4,529,179</u>	<u>88.8</u>	<u>5,199,897</u>	<u>88.8</u>
Direct sales	<u>285,602</u>	<u>11.9</u>	<u>572,414</u>	<u>11.2</u>	<u>656,020</u>	<u>11.2</u>
Total	<u><u>2,398,915</u></u>	<u><u>100.0</u></u>	<u><u>5,101,593</u></u>	<u><u>100.0</u></u>	<u><u>5,855,917</u></u>	<u><u>100.0</u></u>

We derived a significant portion of our revenue from Central China, Eastern China and Southwestern China during the Track Record Period. The revenue contribution of each geographical region as a percentage of our total revenue remained relatively stable during the Track Record Period. The revenue contribution from Southern China as a percentage of our total revenue increased from 5.5% in 2020 to 10.7% in 2022, primarily due to our sales expansion in Guangdong province. The revenue contribution from Central China as a percentage of our total revenue decreased from 39.1% in 2020 to 33.6% in 2022, primarily because our overall revenue growth outpaced the revenue growth of *Xiang Jiao* brand, a regional leading brand in Hunan market.

Distributors

The relationships between distributors and us are categorized as seller-buyer relationships — they purchase baijiu products from us and then resell the products to third-party retailers and/or end consumers, as the case may be. Historical sales generated by these distributors are generally recurring in nature except in cases where we discontinued our business relationships with certain distributors as detailed below. See also “Risk Factors – Risks Relating to Our Business and Industry – We rely on our distribution network to promote and sell baijiu products and generate a vast majority of revenue from our distributors.”

To our best knowledge, as of the Latest Practicable Date, all of our distributors were independent third parties and did not have any other relationship with us, except (i) where such relationships are created pursuant to our distribution agreements with them, and (ii) a *de minimis* number of our distributors or their respective beneficial owners, as the case may be, are our former employees. In 2020, 2021 and 2022, the number of distributors who were or were beneficially owned by our former employees totaled 7, 7 and 9, respectively. Revenue generated from such distributors accounted for approximately 0.6%, 0.4% and 0.3% of our total revenue in 2020, 2021 and 2022, respectively. These former employees reached out and became

BUSINESS

our distributors as they recognize our brands and baijiu products based on their work experience with us. We also believe the collaboration with such distributors is mutually beneficial for a number of reasons. First, as our former employees, such distributors have a proven track record of experience and competency, which make them trusted business partners. Second, with a deep understanding of our business, standards, customers and products, such distributors are capable of promoting and marketing our baijiu products effectively and efficiently, providing more tailored services to our customers, and contributing to our brand reputation among our customers. Leveraging our long-term trustworthy relationships with such former employees, we are able to expand our footprint in the relevant markets without incurring substantial costs associated with identifying and engaging new distributors. The sales to such distributors are arm’s-length transactions. All commercial and operative provisions of our agreements with such distributors are entirely identical to those with any other independent distributors. We expect the relevant arrangements to continue on a limited scale.

Distribution Partners

Consistent with the industry norm, we primarily rely on our distribution partners to promote and sell our baijiu products, who together form an extensive sales and service network across China for us to rapidly scale our business presence in different geographic areas in a cost-effective manner. As distribution partners have greater access to local consumers due to their geographical proximity, familiarity with the local baijiu markets as well as local consumer connections, we believe that they are better positioned to help us penetrate into and sustain our growth in those markets by serving local consumers in a more responsive and bespoke fashion. Additionally, we also worked with an immaterial number of online distribution partners during the Track Record Period, which are mainly online grocery stores such as Tmall and JD.com distributing our products via online sales channels only. In 2020, 2021 and 2022, the number of our online distribution partners amounted to 13, 14 and 13, respectively. These online distribution partners contributed in aggregate less than 5% of our revenue throughout the Track Record Period.

As of December 31, 2022, we had established a broad network of 2,678 distribution partners across China, who have deep knowledge about our baijiu products and extensive sales experience. We have established a stable relationship with these distribution partners. Through the in-depth cooperation with our distribution partners, we are able to take advantage of their localized or online sales network to identify and acquire prospective consumers in markets with substantial growth potential, which also allowed us to expand our consumer base in a cost-effective manner.

We have devised a comprehensive set of onboarding policies to ensure a consistently high level of quality of our distribution partners. Before engaging a distribution partner, we usually interview qualified candidates, and make decisions based on their industry experience and consumer connections. Our engagement process includes review of requisite business licenses and qualifications as well as historical sales performance. Through our robust onboarding criteria, we are committed to building a nationwide network of distribution partners that are the best representatives of not only our baijiu products but also our corporate values.

BUSINESS

The following table sets forth the movement in the number of our distribution partners during the periods indicated.

	For the year ended December 31,		
	2020	2021	2022
As of the beginning of the period	1,428	1,546	2,388
Additions of distribution partners	356	1,179	893
Termination of distribution partners	238	337	603
As of the end of the period	1,546	2,388	2,678

We engaged 356, 1,179 and 893 new distribution partners in 2020, 2021 and 2022, respectively. We engaged new distribution partners to help us penetrate into new geographical markets and enhance presence in existing markets, and to replace the distribution partners that were eliminated.

We discontinued our partnership with 238, 337 and 603 distribution partners in 2020, 2021 and 2022, respectively, primarily due to such distribution partners’ sub-optimal performance, and/or violation of our contractual arrangements such as designated sales territory, and discontinuation of their distribution business. Revenue generated from the departing distribution partners in each of the three years ended December 31, 2020, 2021 and 2022 accounted for only 2.7%, 4.0% and 5.1% of our total revenue generated from distribution partners during the same years, respectively. The number of the departing distribution partners, as a percentage of the total number of distribution partners as of the beginning of each year, increased from 16.7% in 2020 to 21.8% in 2021 and further to 25.3% in 2022. This was mainly because we voluntarily chose to eliminate an increasing number of distribution partners. While we have been progressively growing our distribution partner network to develop and enhance our business presence across geographical markets, we strive to build and maintain a pool of quality distribution partners which can perform up to our expectation and meet our stringent standards and requirements. Nevertheless, the proportion of the departing distribution partners, despite it being increasing during the Track Record Period, was generally consistent with the industry norm, according to Frost & Sullivan. During the Track Record Period and up to the Latest Practicable Date, we did not have any material unresolved disputes or lawsuits with these departing distribution partners. On the basis that, during the Track Record Period, (i) the departing distribution partners generated only an immaterial portion of our revenue, (ii) the departing distribution partners generally underperformed other distribution partners, as evidenced by their lower average revenue per departing distribution partner in each year during the Track Record Period, and (iii) we have been able to identify replacements for these departing distribution partners, our Directors do not believe these discontinued partnerships would cause a material adverse impact on our business and results of operations.

BUSINESS

Key Contractual Terms with Distribution Partners

We typically enter into our standard distribution agreement with each of our distribution partners, except for large online distribution partners with which we usually enter into their respective form contracts. Key contractual terms of our distribution agreements with distribution partners include the following:

- *Terms and termination.* The distribution agreement typically has a term of one year with renewal options, subject to early termination by us in multiple cases where the distribution partner materially breaches its obligations under the agreement.
- *Performance deposit.* Before our business relationship with a distributor begins, the distributor is required to make an upfront payment of a certain amount of deposit to secure its proper performance of contractual obligations during the contract term. We will refund the performance deposit, net of any damages and fees due to us, at the time of contract termination.
- *Designated sales territory.* We designate sales territories within which our distribution partners are allowed to market and sell our baijiu products. A distribution partner is generally prohibited from marketing and selling our baijiu products outside its designated sales territory to avoid cannibalization. Online distribution partners are not subject to our designated sales territory restrictions.
- *Pricing policy.* We set unified recommended retail prices of our baijiu products across sales channels, and we generally allow distribution partners to offer price discounts as they deem fit without seeking our prior approval. Nevertheless, distribution partners shall not take any actions which might materially disrupt the retail prices of our products. We are entitled to adjust the prices at which we sell our baijiu products to our distribution partners based on market conditions.
- *Sales targets.* We require distribution partners to meet certain annual and/or quarterly sales targets during the term of engagement, which, on an annual basis, range from RMB1.0 million to RMB3.0 million in general. The specific amounts of sales targets may vary from one distribution partner to another across different sales territories, the determination of which is subject to various considerations, including general market conditions, level of economic development in a particular market, our penetration rate and strategic objectives as well as the estimated customer demand in the relevant market. We motivate our distribution partners by allowing them volume rebates if they achieve the sales targets set out in the distribution agreements without violating any contract terms. Should any distribution partner fail to meet such targets, we are entitled to discontinue our business relationship, taking into consideration of multiple factors including general market conditions, other distribution partners’ sales performance, and availability of alternative distribution partners in relevant sales territories.
- *Product integrity.* Distribution partners are strictly prohibited under our distribution agreements from selling counterfeit baijiu products. We are entitled to discontinue our business relationship if any distribution partner is found to do so. We require distribution partners to scan the unique QR code assigned to each baijiu product before it is sold, which has enabled us to track product distribution, ensure product integrity, and assess the business performance of distribution partners.

BUSINESS

- *Payment settlement.* Distribution partners are generally required to make full upfront payment to us before we ship our baijiu products. As a result, we did not have any material accounts receivables from our distribution partners in relation to purchase of our baijiu products during the Track Record Period. We are responsible for shipment costs incurred in connection with the delivery of our baijiu products to distribution partners.
- *Product return policy.* Consistent with the industry norm, we typically accept product returns in its original conditions during the contract term. Upon termination or expiration of the distribution agreement, the distribution partner is required to return the preserved products within 30 days. During the Track Record Period, we did not receive any material product returns from any of our distribution partners.

In 2020, 2021 and 2022, revenue generated from our distribution partners amounted to RMB1,673.0 million, RMB3,265.5 million and RMB3,467.1 million, respectively, representing 69.7%, 64.0% and 59.2% of our total revenue for the same periods. Revenue generated from our distribution partners experienced increases throughout the Track Record Period primarily because we have continued to expand our distribution partner network to broaden our consumer coverage. By contrast, revenue generated from our distribution partners as percentages of our total revenue continued to decrease during the Track Record Period as we continued to grow other sales channels. As of December 31, 2020, 2021 and 2022 and January 31, 2023, unsold inventory held by our distribution partners amounted to RMB62.6 million, RMB153.6 million, RMB165.9 million and RMB154.5 million, respectively.

Sub-distributors

We permit our distribution partners to engage sub-distributors, such as supermarkets, tobacco and liquor stores, within their respective designated sales territories to help them market and sell our baijiu products. To the best of our knowledge, as of December 31, 2022, the aggregate number of the sub-distributors was approximately 189,200, and substantially all of these sub-distributors are primarily engaged in distributing consumer goods directly to end consumers in China. We do not have any direct contractual relationships with a majority of these sub-distributors, whereas we enter into tripartite distribution agreements with selected sub-distributors and the relevant distribution partners. We believe such tripartite distribution agreements are mutually beneficial to each of the distribution partners, the sub-distributors and us. In particular, such tripartite distribution agreements with these selected sub-distributors allow us to provide direct support to the sub-distributors. In turn, it provides us with substantial insights into the preferences of and demands from end consumers across geographic areas. By directly incentivizing these selected sub-distributors to promote and sell our baijiu products, we have also increased our brand awareness among end consumers.

As of December 31, 2022, the number of the sub-distributors with which we had contractual relationships was 34,194, representing approximately 18.1% of the aggregate number of the sub-distributors as of the same date to the best of our knowledge. Set out below is a summary of key contractual terms of the tripartite distribution agreements with these selected sub-distributors and the relevant distribution partners:

- *Terms and termination.* The tripartite distribution agreement typically has a term of one year, subject to early termination by us in multiple cases where the sub-distributor materially breaches its obligations under the agreement.

BUSINESS

- *Product supply.* The sub-distributors procure our baijiu products from our distribution partners, rather than us, based on their separate arrangements.
- *Sales targets.* We incentivize the sub-distributors by allowing them volume rebates if they achieve certain sales targets set out in the tripartite distribution agreements without violating any contract terms. The specific amount of volume rebates we offer to the sub-distributors may vary depending on multiple factors. For example, we offer one additional bottle of our baijiu products for free when a sub-distributor makes a bulk purchase of 10 bottles of the same product.
- *Product display.* Pursuant to the tripartite distribution agreements, the sub-distributors shall display our baijiu products in their points-of-sale according to our requirements set out in the agreements. We grant volume rebates to the sub-distributors who have displayed our baijiu products to our satisfaction. For example, when a sub-distributor displays our baijiu products in a predetermined area for one entire month, we may offer them one bottle of that product as a volume rebate.
- *Payment settlement.* Since the sub-distributors procure our baijiu products from our distribution partners, payments of product prices are made by the sub-distributors to our distribution partners. Our sub-distributors are required to make payments to their respective distribution partners upon the receipt of our baijiu products from them and shall not delay any payments.

Despite our contractual relationships with these selected sub-distributors, our distribution partners are generally responsible for making sure their respective distribution partners comply with our sales policies, including designated sales territories and pricing policies. If any sub-distributor is found to violate such sales policies, we are entitled under our distribution agreements with the relevant distribution partners to enforce our contractual rights, including terminating the relevant distribution agreements.

Featured Stores

We collaborate with certain distributors, or our store partners, to establish featured stores to increase the sales of our baijiu products and promote the Chinese baijiu culture and our brand recognition. These store partners that we choose to work with not only have strong local connections and resources, but also truly embrace our corporate culture and brand value. The featured stores are dedicated to exclusively serving our baijiu brands. As of December 31, 2022, we had built a broad network of featured stores in 31 provincial areas across China through our partnership with over 1,000 store partners, which are responsible for the daily operations of these featured stores.

The featured stores are usually situated in highly accessible locations, including high-end residential neighborhoods with secluded environments and street-level stores, depending on the market positioning of the baijiu brand that such featured store serve. At the featured stores, consumers may enjoy and purchase our baijiu products while immersing themselves in the profound Chinese baijiu culture. The featured stores have a cultural exhibition section, in which our consumers can learn and experience the long-standing tradition of baijiu making in China as well as our brand history. In addition, such featured stores engage our consumers with a variety of captivating activities, such as baijiu tasting, thereby enhancing our brand awareness and driving product sales. Consumers attracted by our products and activities at the featured

BUSINESS

stores tend to revisit those featured stores, and promote us to their business and personal networks. We believe the immersive, engaging consumer experience offered at the featured stores, combined with our quality baijiu products, has translated into a vast, loyal consumer base with attractive upselling opportunities.

Below are pictures of the featured stores we work with:



The following table sets forth the movement in the number of our store partners during the periods indicated, and as of December 31, 2022, we had a broad network of 1,108 featured stores across China.

	For the year ended December 31,		
	2020	2021	2022
As of the beginning of the period	132	360	862
Additions of store partners	241	591	459
Termination of store partners	13	89	247
As of the end of the period	360	862	1,074

We engaged 241, 591 and 459 new store partners in 2020, 2021 and 2022, respectively. We engaged new store partners to help us penetrate into new geographical markets and enhance presence in existing markets, and to replace the store partners that were eliminated.

We discontinued our partnership with an aggregate number of 13, 89 and 247 store partners in 2020, 2021 and 2022, respectively, primarily due to such store partners’ sub-optimal performance, violation of our contractual arrangements, and/or discontinuation of their business. Revenue generated from the departing store partners in each of the three years ended December 31, 2020, 2021 and 2022 accounted for only 0.03%, 3.7% and 4.8% of our total revenue generated from store partners during the same years, respectively. The number of the departing store partners, as a percentage of the total number of store partners as of the beginning of each year, increased from 9.8% in 2020 to 24.7% in 2021 and further to 28.7% in 2022. On the one hand, this was because we voluntarily chose to eliminate an increasing number of store partners. While we have been progressively growing the featured store network to develop and enhance our business presence across geographical markets, we strive to build and maintain a pool of quality store partners which can perform up to our expectation and meet our stringent standards and requirements. On the other hand, this was also because a growing number of store partners ceased their business because the brick-and-mortar featured stores were heavily impacted by the reduced customer traffic amid the COVID-19 pandemic throughout the Track Record Period. Nevertheless, the

BUSINESS

proportion of the departing store partners, despite it being increasing during the Track Record Period, was generally consistent with the industry norm, according to Frost & Sullivan. During the Track Record Period and up to the Latest Practicable Date, we did not have any material unresolved disputes or lawsuits with these departing store partners. On the basis that, during the Track Record Period, (i) the departing store partners generated only an immaterial portion of our revenue, (ii) the departing store partners generally underperformed other store partners, as evidenced by their lower average revenue per departing store partner in each year during the Track Record Period, and (iii) we have been able to identify replacements for these departing store partners, our Directors do not believe these discontinued partnerships would cause a material adverse impact on our business and results of operations.

Key Contractual Terms with Store Partners

We typically enter into a standard business cooperation agreement with each of our store partners. Key contractual terms of the business cooperation agreements with our store partners are summarized as below:

- *Terms and termination.* The business cooperation agreement typically has a term of one year with renewal options, subject to early termination by us in multiple cases where the store partner materially breaches its obligations under the agreement.
- *Performance deposit.* Before our business cooperation with a store partner begins, the store partner is required to make an upfront payment of a certain amount of deposit to secure its proper performance of contractual obligations during the contract term. We will refund the performance deposit, net of any damages and fees due to us, at the time of contract termination.
- *Store operation.* Store partners are generally responsible for selecting the store location, securing the premise and managing the daily operation for the featured stores upon consultation with us. Pursuant to the business cooperation agreements, the featured stores should be designed and renovated in accordance with our requirements. Store partners following our guidance and requirements are allowed to claim reimbursements of relevant renovation expenses. Upon receipt and inspection of proofs of expenses satisfactory to us, we provide the store partners with our baijiu products of the same monetary value as the approved proofs of expenses.
- *Pricing policy.* We set unified recommended retail prices of our baijiu products across sales channels, and we generally allow store partners to offer price discounts as they deem fit without seeking our prior approval. Nevertheless, store partners shall not take any actions which might materially disrupt the retail prices of our products. We are entitled to adjust the prices at which we sell our baijiu products to our store partners based on market conditions.
- *Sales targets.* We require store partners to meet certain annual and/or quarterly sales targets, which, on an annual basis, range from RMB1.0 million to RMB3.0 million in general. The specific amounts of sales targets may vary from one store partner to another across different sales territories, the determination of which is subject to various considerations, including general market conditions, level of economic development in a particular market, our penetration rate and strategic objectives as well as the estimated customer demand in that market. We motivate our store partners by allowing them volume rebates if they achieve the sales targets set

BUSINESS

out in the business cooperation agreements without violating any contract terms. Should any store partner fail to meet such targets, we are entitled to discontinue our business relationship with the store partner, taking into consideration of multiple factors including general market conditions, other featured stores’ sales performance, and availability of alternative store partners in relevant markets.

- *Product return policy.* Consistent with the industry norm, we typically accept product returns in its original conditions during the contract term. Upon termination or expiration of the business operation agreement, the store partner is required to return the preserved products within 30 days. During the Track Record Period, we did not receive any material product returns from any of our store partners.
- *Payment settlement.* Store partners are generally required to make full upfront payment to us before we ship our baijiu products. As a result, we did not have any material accounts receivables from our store partners in relation to purchase of our baijiu products during the Track Record Period. We are responsible for shipment costs incurred in connection with the delivery of our baijiu products to store partners.
- *Product integrity.* Store partners are strictly prohibited under our business cooperation agreements from selling any counterfeit baijiu products in the featured stores. We are entitled to discontinue our business relationship if any store partner is found to do so.
- *Product sales policies.* During the contract term, store partners are required to strictly comply with our product sales policies. Specifically, store partners are only permitted to sell our baijiu products in the featured stores, are not permitted to sell baijiu products of other companies and no product shall be distributed and sold to other online and offline sales channels to avoid cannibalization. If any material contract violation is found, we may discontinue our business cooperation with the store partners. In addition, we require store partners to scan the unique QR code assigned to each baijiu product before it is sold, which has enabled us to track product distribution, ensure product integrity, and assess the business performance of store partners. Store partners are motivated to follow the QR code policy since the amount of their volume rebates depend in part on their compliance with such policy.

In 2020, 2021 and 2022, revenue generated from the featured stores amounted to RMB346.5 million, RMB1,087.6 million and RMB1,283.9 million, respectively, representing 14.5%, 21.3% and 21.9% of our total revenue for the same periods. Revenue generated from the featured stores grew significantly throughout the Track Record Period due to the expansion of our store portfolio, which resulted from the increased popularity of our baijiu products and the consumer experience we offer in the featured stores. As of December 31, 2020, 2021 and 2022 and January 31, 2023, unsold inventory held by the featured stores amounted to RMB6.4 million, RMB29.8 million, RMB33.0 million and RMB36.1 million, respectively.

Retailers

We also directly partner with selected retailers that are not covered by our existing distribution partners to increase the density of our sales network. These retailers are primarily tobacco and liquor stores, restaurants and supermarkets that disperse in a market and are easily accessible by end consumers on a daily

BUSINESS

basis. As of December 31, 2022, we worked with 2,866 retailers in 31 provincial areas across China, which enables us to enhance our brand awareness among end consumers.

The following table sets forth the movement in the number of our retailers during the periods indicated.

	For the year ended December 31,		
	2020	2021	2022
As of the beginning of the period	1,563	1,707	1,575
Additions of retailers	292	483	1,621
Termination of retailers	148	615	330
As of the end of the period	<u>1,707</u>	<u>1,575</u>	<u>2,866</u>

We engaged 292, 483 and 1,621 new retailers in 2020, 2021 and 2022, respectively. We engaged new retailers primarily to help us penetrate into new geographical markets and enhance presence in existing markets, and to replace the retailers that were eliminated. We plan to enhance our connections with consumers and collect more consumer insights through our collaboration with the retailers. As a result, we on-boarded additional 1,621 retailers in 2022.

During the Track Record Period, we discontinued our partnership with an aggregate number of 148, 615 and 330 retailers in 2020, 2021 and 2022, respectively, primarily due to such retailers’ sub-optimal performance, and/or violation of our contractual arrangements such as designated sales territory, and discontinuation of their retail business. During the Track Record Period and up to the Latest Practicable Date, we did not have any material unresolved disputes or lawsuits with these departing retailers.

Key Contractual Terms with Retailers

We typically enter into a standard retailer agreement with each of our retailers. Key contractual terms of our retailer agreements with retailers include the following:

- *Terms and termination.* The retailer agreement typically has a term of one year with renewal options, subject to early termination by us in multiple cases where the retailer materially breaches its obligations under the agreement.
- *Designated sales territory.* We designate sales territories within which our retailers are allowed to market and sell our baijiu products. A retailer is generally prohibited from marketing and selling our baijiu products outside its designated sales territory to avoid cannibalization.
- *Pricing policy.* We set unified recommended retail prices of our baijiu products across sales channels, and we generally allow retailers to offer price discounts as they deem fit without seeking our prior approval. Nevertheless, retailers shall not take any actions which might materially disrupt the retail prices of our products. We are entitled to adjust the prices at which we sell our baijiu products to our retailers based on market conditions.

BUSINESS

- *Sales targets.* We require retailers to meet certain annual and/or quarterly sales targets during the term of engagement, which, on an annual basis, range from RMB0.1 million to RMB1.0 million in general. The specific amounts of sales targets may vary from one retailer to another across different sales territories, the determination of which is subject to various considerations, including general market conditions, level of economic development in a particular market, our penetration rate and strategic objectives as well as the estimated customer demand in that market. Should any retailer fail to meet such targets, we are entitled to discontinue our business relationship with the retailer, taking into consideration of multiple factors including general market conditions, other retailers’ sales performance, and availability of alternative retailers in relevant markets.
- *Product integrity.* Retailers are strictly prohibited by our retailer agreements from selling any counterfeit baijiu products. We are entitled to discontinue our business relationship if any retailer is found to do so.
- *Payment settlement.* Retailers are generally required to make full upfront payment to us before we ship our baijiu products. As a result, we did not have any material accounts receivables from our retailers in relation to purchase of our baijiu products during the Track Record Period. We are responsible for shipment costs incurred in connection with the delivery of our baijiu products to retailers.
- *Product return policy.* We typically do not accept product returns from retailers, except that upon termination or expiration of the retailer agreement, the retailer is required to return the preserved products within 30 days. During the Track Record Period, we did not receive any material product returns from any of our retailers.
- *Product sales policies.* During the contract term, retailers are required to strictly comply with our product sales policies. Specifically, retailers are only permitted to sell our baijiu products to end consumers, no product is allowed to be sold to other retailers or through online channels. If any material contract violation is found, we may discontinue our business cooperation with the retailer. In addition, we encourage retailers to scan the unique QR code assigned to each baijiu product before it is sold, which could help us to track product distribution, ensure product integrity, and assess the business performance of retailers.

During the Track Record Period, revenue generated from retailers accounted for an immaterial portion of our total revenue. In 2020, 2021 and 2022, revenue generated from retailers amounted to RMB93.8 million, RMB176.0 million and RMB448.9 million, respectively, representing 3.9%, 3.5% and 7.7% of our total revenue.

BUSINESS

Robust Management of Distributors

Maintaining a robust network of distributors and an effective cooperative relationship with them is crucial to our ability to drive sales results and ensure consumers’ satisfaction. We manage and ensure the business performance and compliance of our distributors in the following ways:

- *Performance review.* We monitor our distributors’ sales activities by requiring them to periodically provide us with sales reports, and utilizing our QR code system to trace the sales of products by our distributors. For details of our QR code system, see the bullet titled “Inventory Risk Management” below. Moreover, we periodically review the business performance of our distributors, on which basis we decide whether to continue our business relationship with any particular distributor.
- *Anti-cannibalization management.* We have put in place robust anti-cannibalization measures to foster healthy competition among our distributors, and across our different sales channels. With respect to potential competition among our distributors:
 - We specify in our distribution agreements the particular sales territory and/or sales channel, as the case may be, for each of our distributors, and prohibit them from promoting or selling our baijiu products outside their respective sales territories and sales channels. With respect to the featured stores, we require that, as principles, the distance between two featured stores shall be at least one kilometer, and only one featured store is allowed to be developed in a county-level administrative area in China.
 - Pursuant to our distribution agreement, when on-boarding a new distributor, we typically require the new distributor to develop customer relationships outside of our existing distribution network, and the new distributor is not permitted to poach customers of our existing distributors. We have established whistleblowing channels through which our existing distributors can report the noncompliant acts by our new distributor, and we have the discretion to discontinue our relationship with such noncomplying new distributor after our due investigation.
 - In the event that there are different types of distributors operating in the same designated sales territory, we generally engage them to sell baijiu products under our different brands, or same-brand products of different series, thereby differentiating their sales channels by target consumer groups.
 - For our online distribution partners that may sell our baijiu products across sales territories, we believe cannibalization risks are limited as we only work with an immaterial number of online distribution partners, which contributed less than 5% of our total revenue during the Track Record Period.

With respect to potential competition between our direct sales force and distributors, we believe cannibalization risks are remote on the basis that (i) our direct sales team mainly promotes and sells our baijiu products to group-purchase customers that are typically enterprises and

BUSINESS

organizations, which is different from tobacco and liquor stores, restaurants, supermarkets and individual consumers that our distributors mainly target, and (ii) with respect to our self-operating online store across different e-commerce platforms that may potentially compete with our distributors, revenue generated therefrom contributed less than 5% of our total revenue throughout the Track Record Period.

- *Inventory risk management.* We have taken various steps to monitor the inventory level of our distributors. For example, we require our distribution partners and store partners, and encourage our retailers, to scan the unique QR code we assign to a baijiu product under our major baijiu brands whenever it is stocked up or shipped out such that we are able to monitor the inventory level on a real time basis. We have assigned QR code to a vast majority of our major baijiu products. 87.7% in terms of tonnage and 96.3% in terms of revenue of our baijiu products shipped out by our distribution partners and store partners were assigned QR codes in 2022. We take measures to ensure the effectiveness of our QR code system in monitoring our distributors' inventory levels. First, we incentivize our distributors to comply by offering them volume rebates only if they follow our QR code policies. As motivated by this incentive policy, 91.1% of the baijiu products with QR codes that were shipped out by our distribution partners and store partners in 2022, in terms of tonnage, were scanned by our distribution partners and store partners when they were shipped out. Second, we also encourage retailers, primarily tobacco and liquor stores, restaurants and supermarkets, who purchase our baijiu products from a distributor to scan the QR codes of the products they purchase such that we can monitor whether the distributor's inventory has been sold. 71.5% of the baijiu products with QR codes that were shipped out by our distribution partners and store partners in 2022, in terms of tonnage, were subsequently scanned by retailers who purchase our baijiu products from our distribution partners and store partners. Additionally, we closely inspect and analyze distributors' inventories on-site on both regular and unscheduled bases, which allows us to cross check the authenticity of their orders and inventory levels against the sales records enabled by our QR code system. During the Track Record Period, we did not identify any material discrepancies in sales records across our internal accounting system and our QR code system. Furthermore, we usually review a distributor's prior sales performance and inventory level before we deliver our baijiu products as requested in their new orders.
- *Contract compliance.* Our distributors are contractually required to strictly comply with our sales policies and guidelines set out in our agreements, or otherwise we will be entitled to damages for breach of contract. Fees received from distributors for breach of contracts were RMB0.3 million, RMB4.1 million and RMB9.0 million in 2020, 2021 and 2022, respectively. For details, see “Financial Information – Description of Major Components of Our Results of Operations – Other Income.” Nevertheless, none of such breaches of contract had, individually or in aggregate, resulted in material adverse effect on our business and results of operations during the Track Record Period and up to the Latest Practicable Date.
- *Business integrity.* As part of our corporate culture, we are committed to the highest levels of business integrity in our daily operations, particularly our sales and marketing activities carried out through our distribution network. All of our distributors are contractually required to strictly comply with all applicable laws and regulations, including anti-bribery laws and regulations,

BUSINESS

when conducting any sales and marketing activities. The agreements we enter with distributors also prohibit any bribery or corruptive acts. In the event any illegal and/or fraudulent act is identified or reported, we will take immediate actions to investigate the relevant employees or distributors and have the right to terminate the collaboration according to our agreements with distributors and seek indemnity for losses incurred due to their misconducts.

Our Direct Sales Channel

We dedicate our direct sales team to serving group-purchase consumers and operating our online stores on different e-commerce platforms. As of December 31, 2022, our direct sales team consisted of 515 sales personnel with deep knowledge about China’s baijiu industry and particularly our products, as well as extensive sales experience. Leveraging our local connections and consumer relationships, our direct sales team mainly promote and sell our baijiu products to group-purchase consumers. Our group-purchase consumers primarily are enterprises and organizations which purchase our baijiu products in bulk for their business occasions or as holiday gifts.

We have also been ramping up our online presence, catering to our consumers’ evolving consumption patterns. Through our self-operated online stores on leading, nationwide third-party e-commerce platforms, such as JD.com and Tmall, our baijiu products are easily accessible by our consumers via a few clicks. Consumers also have the option to purchase our baijiu products under certain of our brands on Weixin applet. Our online sales grew rapidly throughout the Track Record Period. Revenue from our self-operated online stores was RMB24.0 million, RMB197.2 million and RMB279.1 million in 2020, 2021 and 2022, respectively. As we continue to expand our footprints online, we believe we are able to broaden our consumer coverage and forge a lasting connection between our brand and consumers.

In 2020, 2021 and 2022, revenue generated from our direct sales channels amounted to RMB285.6 million, RMB572.4 million and RMB656.0 million, respectively, representing 11.9%, 11.2% and 11.2% of our total revenue for the same periods.

BRANDING AND MARKETING

We adopt an innovative, immersive sales strategy which, combined with our quality baijiu products, accumulated a vast, loyal customer base. We believe adopting such sales mode is a long-term investment that will pay off throughout the selling journey, and we have devoted increasing sales force and other resources to support its development. We believe our brand names are the foundation of our long-standing connections with consumers and the key to our business success. Through our multi-channel branding and marketing strategy, we strive to build our brands as synonyms for premium baijiu in the market.

- We are committed to becoming the baijiu brands that can represent the time-honored Chinese baijiu culture. We endeavor to create unique experiences for our consumers to immerse themselves in the rich culture, while tasting our fragrant baijiu. To this end, we have established three featured distilleries open for consumers’ tour, in which they can have in-person experience of baijiu making, blending and tasting.
- Consumers may also enjoy diversified cultural activities at a broad network of featured stores that we established with our store partners. Through this immersive, engaging experience, we

BUSINESS

seek to promote the traditional Chinese baijiu culture that our baijiu brands stand while at the same time increase our brand awareness and value. See “– Sales and Distribution – Distributors – Featured Stores” for details.

- Adapting to the emergence of social media, we place significant value on our online marketing initiatives and campaigns. We actively work with social media platforms, such as Douyin, Weixin and Weibo, to convey our brand propositions and encourage dissemination of our brand names. To promote the Chinese baijiu culture that is deeply embodied in our baijiu products, we have launched a series of short videos on multiple social media platforms, spreading knowledge about baijiu, telling our brand stories and showcasing our baijiu production process. We view our creative, short yet informative videos as a mean to engage consumers who resonate with our brand propositions and are willing to recommend us to others. We have achieved initial market success since we launched these short videos, with the most viewed one for *Zhen Jiu* having amassed nearly two million view counts on Douyin. We also partner with key opinion leaders on various social media platforms to enhance our brand awareness. We believe our active social media management has in the past helped us build a strong presence among consumers, and will continue to assist us in maintaining and increasing our consumer base as well as our brand exposure.

We also regard online and offline advertisements as one of our core branding and marketing initiatives. We collaborate with household television programs to advertise our brand names. *Zhen Jiu*'s advertising before Xinwen Lianbo and during CCTV New Year's Gala, for instance, amassed over 4.7 billion views. We place our offline advertisements mainly at airports, high-speed railway stations, and city billboards where the target consumer traffic is high. From time to time, we also sponsor popular television programs, web series and live streaming to increase our brand exposure. For example, *Zhen Jiu* sponsored Jinri Toutiao's special solicitation for article submission and live streaming event during the Mid-Autumn Festival in September 2021, which amassed millions of view counts and thousands of discussions.

PRODUCT PRICING

We believe our leading position in our industry in China as well as our brand recognition and product quality have provided us with strong pricing power. We generally take into account a number of factors to set the prices of our baijiu products, including brand positioning, cost of production, market demand and competition.

We price our baijiu products sold in online sales channels with reference to the recommended retail prices of the same product series. We also offer certain product lines exclusively in the online channels, the prices of which are adjusted with the prevailing spending patterns of the online communities and alignment with the sales and promotion events organized by the online sales platform from time to time.

OUR CUSTOMERS

Our customers consist primarily of our distributors and direct sales clients. We sell our baijiu products mainly through a nationwide network of distributors as well as via our direct sales team. For details of our relationship with distributors, including the key contractual terms, see “– Sales and Distribution – Distributors.”

BUSINESS

In 2020, 2021 and 2022, revenue generated from our five largest customers accounted for 6.5%, 7.6% and 4.6%, respectively, of our total revenue during the same periods. Huaze Liquor Sales Co., Ltd. (華澤酒業銷售有限公司), or Huaze Liquor, a liquor distribution company previously controlled by Mr. Wu through Jindong Group, contributed to 0.01% and 2.0% of our total revenue in 2020 and 2021, respectively. Jindong Group disposed its entire equity interest in Huaze Liquor to an Independent Third Party and ceased to have any equity interest in Huaze Liquor in December 2021. See “Financial Information – Related Party Transactions” for further details. The following table sets forth the details of our five largest customers during the Track Record Period.

<u>Rank</u>	<u>Customer</u>	<u>Type of products sold</u>	<u>Background</u>	<u>Year of commencement of business relationship</u>	<u>Revenue amount (RMB'000)</u>	<u>Percentage of total revenue</u>
<i>For the year ended December 31, 2020</i>						
1	Customer A	Baijiu products	A privately-owned company headquartered in Guizhou that engages in the sales of baijiu products	2016	44,041	1.6%
2	Customer B	Baijiu products	A privately-owned company headquartered in Guizhou that engages in the sales of baijiu products	2016	42,556	1.4%
3	Customer C	Baijiu products	A privately-owned company headquartered in Hunan that engages in the sales of baijiu products	2017	34,484	1.3%
4	Customer D	Baijiu products	A privately-owned company headquartered in Hunan that engages in the sales of baijiu products and food	2013	30,031	1.3%
5	Customer E ⁽¹⁾	Baijiu products	A privately-owned company headquartered in Hunan that engages in the sales of alcohol and other products	2020	22,609	0.9%

BUSINESS

<u>Rank</u>	<u>Customer</u>	<u>Type of products sold</u>	<u>Background</u>	<u>Year of commencement of business relationship</u>	<u>Revenue amount (RMB'000)</u>	<u>Percentage of total revenue</u>
<i>For the year ended December 31, 2021</i>						
1	Huaze Liquor	Baijiu products	A privately-owned company headquartered in Hunan that engages in the sales of baijiu products	2020	103,111	2.0%
2	Customer F ⁽²⁾	Baijiu products	A privately-owned e-commerce platform company headquartered in Beijing which is indirectly wholly-owned by a company listed on the Main Board of the Stock Exchange	2021	92,015	1.8%
3	Customer A	Baijiu products	A privately-owned company headquartered in Guizhou that engages in the sales of baijiu products	2016	73,716	1.4%
4	Customer B	Baijiu products	A privately-owned company headquartered in Guizhou that engages in the sales of baijiu products	2016	70,154	1.4%
5	Customer H	Baijiu products	A privately-owned online consumer products retailer headquartered in Zhejiang	2020	48,719	1.0%

For the year ended December 31, 2022

1	Customer B	Baijiu products	A privately-owned company headquartered in Guizhou that engages in the sales of baijiu products	2016	75,321	1.3%
---	------------	-----------------	---	------	--------	------

BUSINESS

Rank	Customer	Type of products sold	Background	Year of commencement of business relationship	Revenue amount (RMB'000)	Percentage of total revenue
2	Customer A	Baijiu products	A privately-owned company headquartered in Guizhou that engages in the sales of baijiu products	2016	66,549	1.1%
3	Customer F	Baijiu products	A privately-owned e-commerce platform company headquartered in Beijing which is indirectly wholly-owned by a company listed on the Main Board of the Stock Exchange	2021	58,267	1.0%
4	Customer K	Baijiu products	A privately-owned company headquartered in Henan that engages in the sales of baijiu products	2018	37,057	0.6%
5	Customer L ⁽³⁾	Baijiu products	A privately-owned company headquartered in Hainan that engages in the sales of baijiu products	2022	36,307	0.6%

Notes:

- (1) We commenced business relationships with Customer E from 2020 because we previously engaged in business with Customer E's sister company under the same parent entity since 2014 to distribute our baijiu products in Changsha, Hunan, and since 2020, the year when Customer E was newly established, such sister company handed over such distribution business to Customer E. Our revenue derived from Customer E in 2020 was commensurate with our revenue derived from Customer E's sister company in 2019, leveraging our long-standing relationship with such sister company since 2014.
- (2) We commenced business relationships with Customer F from 2021 to distribute our baijiu products on the e-commerce platform operated by Customer F. From 2017 to 2021, we engaged an online distribution partner to sell our baijiu products to Customer F for sale on Customer F's e-commerce platform. Since 2021, we ceased our collaboration with such online distribution partner in this respect and started to sell our baijiu products directly to Customer F. Leveraging our previous collaboration with the online distribution partner from 2017 to 2021, we have accumulated a solid customer base for our product sales on Customer F's platform and generated a relatively high amount of revenue from our transactions with Customer F in 2021.
- (3) We commenced business relationships with Customer L from 2022. The parent company of Customer L is a large group company based in Shandong that engages in the sales and distribution of baijiu products under leading brands for over 20 years. We were acquainted with Customer L and its parent company when we were seeking business collaborations to expand our presence in Shandong market in 2021. Leveraging the abundant sales experience and extensive distribution network of Customer L's parent company, we generated a relatively high amount of revenue from our transactions with Customer L in 2022.

BUSINESS

Except Huaze Liquor, to the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, none of our five largest customers is a connected person or a supplier of us. As of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who or which to the knowledge of the Directors owned more than 5% of our issued share capital) had any interest in any of our five largest customers. During the Track Record Period, all of our five largest customers were Independent Third Parties, except Huaze Liquor.

We value our customers’ feedback and we strive for customer satisfaction. To this end, we have established dedicated customer service teams under different baijiu brands with more than 40 members. Our customer service teams are primarily responsible for answering customers’ queries, coordinating product logistics and delivery, collecting customers’ feedback and handling customer complaints. We operate customer hotlines to address customers’ needs, and actively communicate with our customers on social media platforms. In addition, our customer service staff proactively conduct customer surveys to better understand our customers’ feedback and needs. In addressing the consumers’ complaints, specifically, we undertake to communicate and liaise with the consumers through a variety of feedback mechanisms in a timely manner and to commence the quality investigation procedures if necessary. Our customer service team also keeps records of all complaints and the results of any investigation or resolution measures in order to track the progress of customer complaint handling. During the Track Record Period, we did not receive any material complaints from consumers in connection with product quality.

SUPPLY CHAIN MANAGEMENT

We believe that maintaining high quality of our products depends largely on our ability to acquire the best available raw materials and other necessary supplies from reliable suppliers.

Procurement

We primarily procure raw materials and supplies, such as grains, and packaging materials and low value consumables such as baijiu bottles and packages, and base liquor. We particularly place a significant focus on the procurement of production materials, which have a material and direct impact on the quality and taste of our baijiu products, and in turn, our brand reputation. Therefore, we have been and will continue to select our suppliers for base liquor and grains and optimize our raw materials procurement process with extra care to ensure a consistent level of quality and flavor for our baijiu products, while reducing procurement costs and improving our long-term profitability. To control our procurement costs, our agreements with suppliers generally provide that fluctuations of raw material prices within a certain range shall not affect the purchase price set out in the agreements. Change in the availability and price of raw materials is one of the many factors we consider when assessing if we should make a price adjustment. The decision to adjust our product price will be made after evaluating, among others, the market demand, availability and price of raw materials, price adjustment policies of other market players and our brand positioning.

- *Grains.* We source quality grains, primarily sorghum, wheat and rice, from third-party suppliers across China. As the quality of grains are critical to the taste and texture of finished baijiu products, we require the grains provided by our third-party suppliers to meet our specifications and requirements. To ensure the integrity of the grains we procure during storage, we implement

BUSINESS

strict quality control measures. For details, see “– Quality Control – Quality Control over Logistics and Warehousing.”

- *Base liquor.* To meet the increasing market demand, we collaborated with selected third-party distilleries to produce base liquor during the Track Record Period. See “– Production Facilities – Collaborated Production of Base Liquor” for details. During the Track Record Period, we also procured base liquor primarily for the blending of strong aroma and mixed aroma products to improve our production capacity.

We incurred cost of production materials of RMB496.4 million, RMB989.5 million and RMB1,125.8 million in 2020, 2021 and 2022, respectively, accounting for 43.3%, 41.7% and 43.0% of our cost of sales for the same periods.

Our Suppliers

Supplier Selection and Management

We maintain a list of qualified suppliers for raw materials and base liquor, with more than one alternative supplier correspondingly. We also periodically review the performance of our existing suppliers and evaluate the necessity and benefit of working with additional suppliers to support our production. Before making a procurement, our procurement department pre-screens supplier candidates based on, among others, their certificates and qualifications, production capacity, and product quality inspection reports, regardless of any previous transactions with them. We inspect product samples of those supplier candidates who passed our pre-screening. Depending on the pre-screening and sample inspection results, we may conduct on-site inspections to ensure that they and their products comply with our quality standards. We then rate each of the supplier candidates and partner with suppliers of the highest rating. We also have dedicated quality control specialists to conduct regular and random on-site inspections on our suppliers frequently to ensure the quality of the supplies. We periodically review and evaluate the performance of our suppliers based on such on-site inspections as well as the overall quality of their supplies.

We typically retain multiple suppliers for each of the major raw material needed for the production of our baijiu products to reduce reliance on any particular supplier. We have since our inception identified and established stable, trustful business relationships with reliable suppliers for each major raw material. Among the five largest suppliers in 2022, four of them have collaborated with us for more than four years. We believe that we have maintained a large pool of qualified suppliers to meet the demands and standards for our products. In 2020, 2021 and 2022, we engaged 44, 65 and 78 suppliers for the supply of base liquor and major raw materials, including sorghum, wheat and rice. We believe that our stringent supplier selection and inspection criteria, abundant pool of qualified suppliers, and stable business relationships with reliable suppliers, enable us to secure stable supply, ensure supply quality, avoid over-reliance risk and minimize the risks of unexpected fluctuation in raw material prices. During the Track Record Period, we did not experience any material incidents of supply interruption, early termination of contractual arrangements with our suppliers or supply shortage of raw materials.

Key Contractual Terms of Supply Agreements

We usually do not enter into long-term supply agreements with suppliers of raw materials. For summary of our standard agreements that we enter into for the collaborated production of base liquor, see

BUSINESS

“– Production Facilities – Collaborated Production of Base Liquor” for details. Set out below is a summary of our standard supply agreement for base liquor that we enter into with our suppliers.

- *Term.* Typically one year subject to annual review and renewal.
- *Quality.* Detailed quality standards and specifications for the procured goods are set forth in the supply agreement. For raw material to be used in our baijiu products, the suppliers are contractually obliged to present to us relevant licenses and certificates such as quality inspection certificates in connection with the products to be delivered to us. The suppliers shall be liable for compensation if we are subject to penalties imposed by the relevant administrative authorities or if our consumers suffer personal injuries or property damages due to quality deficiencies of products sold by the suppliers.
- *Pricing.* Pre-determined price of the procured goods is set forth in the supply agreements.
- *Delivery.* The suppliers are required to deliver the procured goods to our designated place pursuant to the supply agreements and shall bear any related logistics costs.
- *Inspection and acceptance.* The procured goods are subject to our inspection upon arrival at our designated place, and we may refuse acceptance of any defective products.

Major Suppliers

In 2020, 2021 and 2022, purchases from our five largest suppliers accounted for 35.5%, 38.4% and 29.1% of our total purchases for the same periods, respectively. In 2020, 2021 and 2022, purchases from our largest supplier accounted for 13.6%, 13.3% and 7.0% of our total purchases for the same periods, respectively.

The following table sets forth the details of our five largest suppliers during the Track Record Period.

Rank	Supplier	Type of products/services purchased	Background	Year of commencement of business relationship	Purchase amount (RMB'000)	Percentage of total purchase
<i>For the year ended December 31, 2020</i>						
1	Supplier A	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2018	158,432	13.6%
2	Supplier B	Production material	A privately-owned company headquartered in Sichuan that engages in the production and sales of liquor related materials	2018	105,516	9.0%

BUSINESS

Rank	Supplier	Type of products/services purchased	Background	Year of commencement of business relationship	Purchase amount (RMB'000)	Percentage of total purchase
3	Supplier C	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2018	50,937	4.4%
4	Supplier D	Production material	A privately-owned company headquartered in Guizhou that engages in the sales of liquor related materials	2018	49,561	4.2%
5	Supplier E	Grains	A privately-owned company headquartered in Guizhou that engages in the processing, storage and sales of agricultural products	2019	49,230	4.2%

For the year ended December 31, 2021

1	Supplier A	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2018	536,700	13.3%
2	Supplier C	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2018	294,039	7.3%
3	Supplier B	Production material	A privately-owned company headquartered in Sichuan that engages in the production and sales of liquor related materials	2018	260,756	6.5%
4	Supplier F	Plants and buildings construction services	A privately-owned company headquartered in Hunan that engages in the design and construction of buildings and plants	2020	255,817	6.4%
5	Supplier G	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2019	196,992	4.9%

BUSINESS

Rank	Supplier	Type of products/services purchased	Background	Year of commencement of business relationship	Purchase amount (RMB'000)	Percentage of total purchase
<i>For the year ended December 31, 2022</i>						
1	Supplier A	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2018	297,278	7.0%
2	Supplier F	Plants and buildings construction services	A privately-owned company headquartered in Hunan that engages in the design and construction of buildings and plants	2020	295,611	7.0%
3	Supplier C	Production material	A privately-owned company headquartered in Guizhou that engages in the production and sales of liquor related materials	2018	242,578	5.7%
4	Supplier B	Production material	A privately-owned company headquartered in Sichuan that engages in the production and sales of liquor related materials	2018	219,918	5.2%
5	Supplier I	Grains	A privately-owned company headquartered in Guizhou that engages in the processing, storage and sales of agricultural products	2018	181,348	4.3%

During the Track Record Period, none of our Directors, their respective associates, or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of the Company’s issued share capital) had any interest in any of our five largest suppliers. None of our major suppliers are our major customers and vice versa. During the Track Record Period, all of our five largest suppliers were Independent Third Parties.

INVENTORY MANAGEMENT

We maintain a large amount of inventories, consisting primarily of (i) raw materials, mainly including grains used to produce our baijiu, and packaging materials, (ii) work-in-progress, mainly including our base liquor, and (iii) finished baijiu products that we or our distributors hold for sales. A majority of our inventories at each period end are work-in-progress. In addition, our inventory turnover days were relatively long during the Track Record Period, primarily attributable to the requisite aging procedures in our baijiu-making process. To optimize our inventory levels and minimize inventory write-down risks, we have a comprehensive set of inventory management policies. Our inventory management is a cross-departmental collaboration spanning procurement, logistics, brand building, product sales and finance, making sure our inventory level remains at an optimal level. We formulate dynamic production plans taking into account the market demand and inventory levels. We launch marketing initiatives from time to time catering to our

BUSINESS

desired inventory level. Moreover, we require our regional managers to visit warehouses on-site to check and analyze inventory levels and report the status on a monthly basis. We monitor our inventory turnover days categorized by raw materials and packaging materials, work-in-progress, as well as finished baijiu products that we or our distributors hold for sales. We monitor the level of our inventory of raw materials to maintain a level sufficient for us to update our baijiu-making and make procurement plans where necessary. Our inventory levels for our work-in-progress and finished baijiu products are largely determined by projected sales levels in the forthcoming periods, which we usually plan ahead in accordance with prevailing market trends and consumer preferences. We increased our inventory level in 2021 and 2022 in response to the growing market demand for our baijiu products.

The unsold inventories with our distribution partners and featured stores are baijiu products purchased by them based on their sales demand. We do not set a minimum level of inventory for our distribution partners and featured stores. As we generally require distribution partners and featured stores to make full upfront payment before we arrange delivery of baijiu products to them, we believe that the distribution partners and featured stores do not have the incentive to hold excess inventories. In addition, we review the prior sales performance and inventory level of each distribution partner or featured store before delivering products pursuant to its purchase order. If the inventory level of a distribution partner or featured store exceeds 30% of its annual sales target, we generally suspend processing of any new purchase order unless there are special circumstances where the prior consent is required from us before processing the purchase order. During the Track Record Period, the turnover days of the unsold inventories with our distribution partners and featured stores calculated based on corresponding costs in our total cost of sales generally ranged from one to two months. According to Frost & Sullivan, based on their primary and secondary research, distributors in baijiu industry usually purchase baijiu products based on their sales demand and the level of inventory turnover days of our distribution partners and featured stores are in line with industry norm. We closely track inventories across different premises through our digital system. We require our distribution partners and featured stores to scan the QR code we assign to a baijiu product under our major baijiu brands whenever it is shipped out. Therefore, coupled with the inspection and analysis conducted by our sales personnel on both regular and unscheduled bases, we are able to monitor the inventory level throughout the entire distribution process, such as when the products are shipped from our warehouses to the premises of the distribution partners and featured stores, and when the products are shipped out by such distribution partners and featured stores. It generally takes one to five days for us to deliver baijiu products from our warehouses to our distribution partners and featured stores. See “Financial Information – Discussion of Certain Key Items from Our Consolidated Statements of Financial Position – Inventories” for details. We also implement vigorous quality control measures to ensure integrity of our inventories. For details, see “– Quality Control – Quality Control over Logistics and Warehousing.”

LOGISTICS AND WAREHOUSING

With respect to raw materials and packaging materials we procure, the third-party suppliers are responsible for transportation and delivery of the products to us. Pursuant to the agreements we enter into with these suppliers, they are contractually required to take necessary measures to make sure the products in transit will not be damaged or contaminated. We are entitled under the agreements to decline any defective products.

We primarily engage reliable local logistics partners to transport finished baijiu products to our customers. Pursuant to the agreements we entered into with these logistics partners, we require that vehicles

BUSINESS

used for us be thoroughly cleaned. We also require our logistics partners to deliver our products in accordance with our instructions and on time, and they shall bear the risks of loss in transit. Delivery costs are settled on a monthly basis.

PRODUCT DEVELOPMENT

We pride ourselves on inheriting the time-honored baijiu-making techniques and reinvigorating them to develop iconic recipes and flavor. We have a dedicated product development team responsible for product development and package design. As of December 31, 2022, our product development team consisted of 195 employees, among whom a vast majority have bachelor’s degree or above. Our product development team is spearheaded by a technical committee consisting of 25 recognized baijiu experts with extensive industry experience, among whom four are national appraisers of baijiu, nine hold senior liquor-making certificates, and ten hold senior engineer qualifications.

We have also strengthened our product development capabilities by collaborating with several universities and research institutions, such as Jiangnan University, Central South University of Forestry and Technology and Tianjin University of Science and Technology. With the technical support from these academic institutions, we have identified certain traceable components during baijiu production for the enhancement of the flavor and functional quality of our baijiu products. For example, we conducted cooperative research with Guizhou University on projects such as the relationship between the diversity of microbial flora and the quality of sauce aroma baijiu products, and the screening of functional strains of alcoholic and sweet flavor-producing microorganisms in the fermentation process, and the research results have been awarded national and provincial science and technology prizes. Under our collaboration agreements with the third-party institutions, we retain the proprietary right to any jointly developed patents.

We have been continuously evolving our product offerings through selective new additions, withdrawals and modifications to meet the ever-changing needs of consumers and marketplace. Our product development cycle for a new baijiu product usually takes 3 to 12 months, which can be generally divided to the following stages:

- *Product roadmap.* At the initial stage of our product development process, we make product innovation and improvement plans based on market trends and our business strategies.
- *Recipe design.* Our baijiu recipe is designed by industry veterans who are able to identify the balanced and sophisticated base liquor combination, in order to create the desired fragrance and flavor.
- *Test blending.* We usually prepare several types of base liquor and selectively blend them using different recipes developed. After an internal round of anonymous testing, we determine the best recipe ready for sample production.
- *Sample production and testing.* After producing testing samples based on the preliminary recipe, we conduct rigorous internal sample testing and market research against flavor analysis, quality standards and consumer expectations. We collect feedback and refine our recipes accordingly.

BUSINESS

- *Pre-launch testing.* Upon internal approval for the refined recipes, we will test our new products through market survey to collect consumer feedback at various baijiu tasting events. We believe this exercise helps us improve product quality and evaluate consumer acceptance.
- *Mass production.* If the sample product receives positive feedback from the market survey, we will initiate mass production process. In the event that the product sample fails the market survey, we will re-design the recipe and repeat the processes described above.

DIGITAL INFRASTRUCTURE

Reliable and streamlined digital infrastructure have been, and will continue to be, essential for us to enable growth and achieve greater efficiency. We have established integrated digitalized management system to support major aspects of our operations. We also utilize data analytics to facilitate business decision making, reduce operational costs and improve our operational efficiency, all contributing to enhanced overall profitability.

Production Digitalization

We have developed procurement and production systems to optimize our baijiu-making process. With the digital procurement system, we are able to make purchases according to market fluctuations and actual production needs, enhance supplier screening and management, and improve the efficiency of procurement approval and execution. In addition, by combining time-honored baijiu-making techniques with a modern, intelligent production management system, we could improve production efficiency, control production costs and maintain product quality while preserving the traditional flavor of our baijiu products.

- *Digital Base Liquor Management System.* We develop digital base liquor management system as an effective tool to enhance the management of base liquor in stock, especially those stored in jars, which are our important strategic assets. We use 3D scanning technology to establish digital models for the base liquor containers stored for aging, so that we can quickly measure and track the volume of stored base liquor with sensors in a more accurate and non-invasive way.
- *Internet of Things.* We develop digital infrastructure comprising systems and modules including the Internet of Things at our production facilities to further digitalize and intelligentize our baijiu production. By recording, monitoring and analyzing environmental data and production conditions in real time for each process step, we are able to achieve more precise control of product quality.

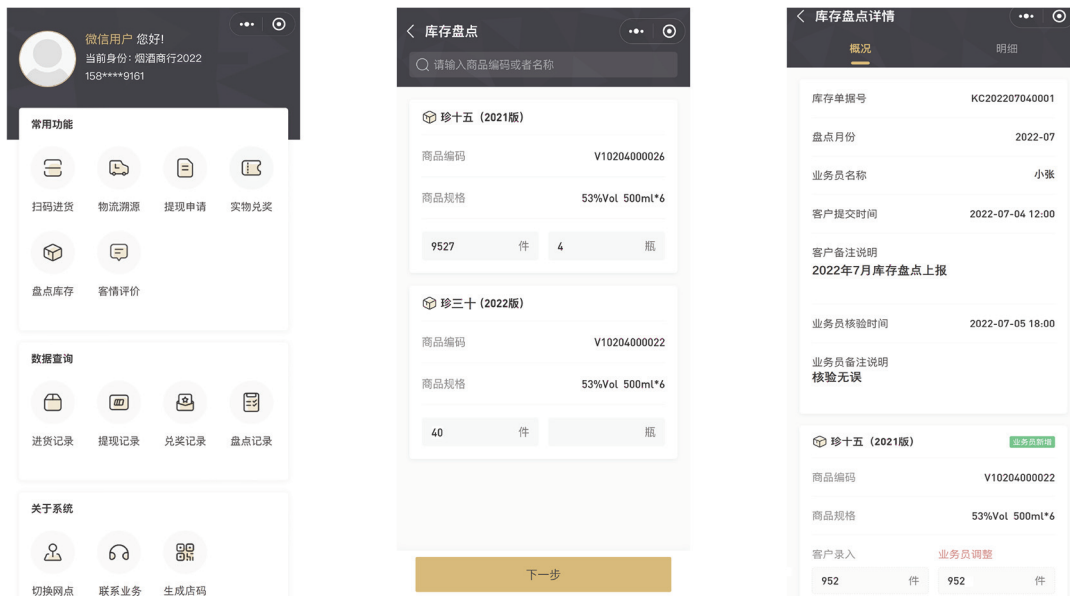
Sales and Marketing Digitalization

We endeavor to continuously improve the capabilities of various digital operation tools in the process of sales and marketing. Specifically, we have developed proprietary Weixin applets and applications to directly engage with end-consumers, empower front-line employees, collect, and analyze key performance indicators on a real-time basis. For example, we have launched, among others, the following tools:

- *Channel Master (渠道通) Weixin Applet and Distributor Management Platform.* Channel Master is a Weixin applet applied during the sales process to improve the transparency of the

BUSINESS

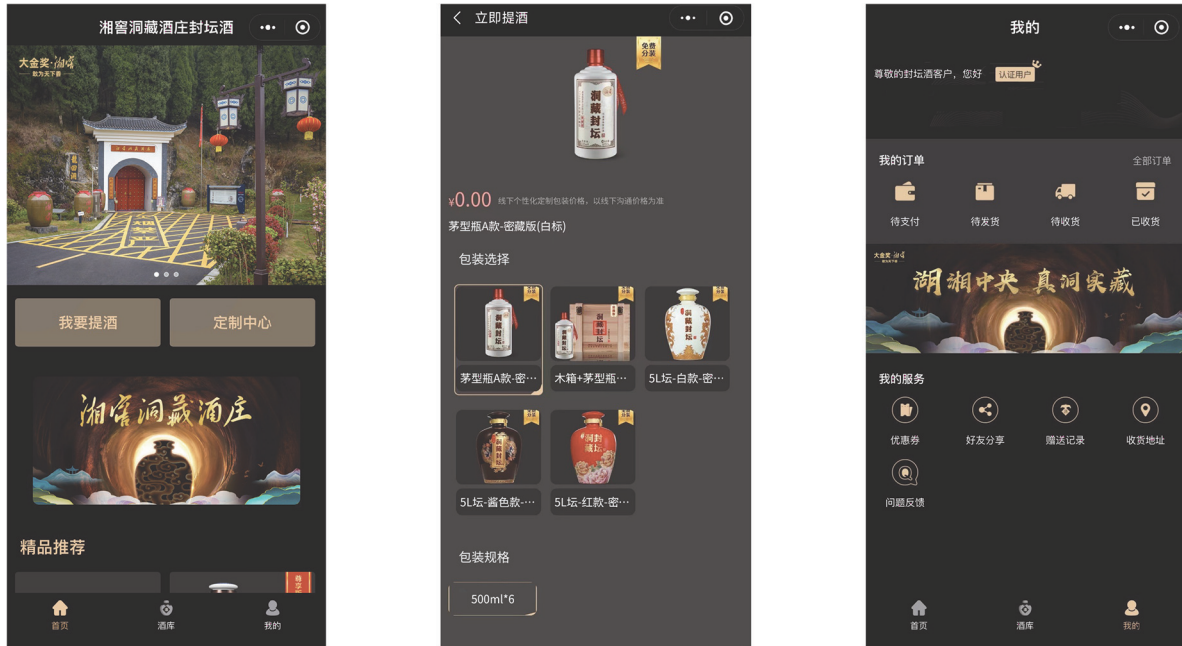
distribution channel and promote sales efficiency. By accessing the applet and logging into the management platform, distributors can efficiently and conveniently manage the entire distribution process and perform logistics tracking, including procurement, inventory management and sales to consumers. The records will automatically be kept in our system for further inquiry and verification. Distributors can request volume rebates after consumers pay for the orders by scanning QR code, thus promoting their sales.



- **QR Code System and RFID.** We developed a QR code system to enable more efficient control and management of product quality, distribution channels and marketing methods. Each of our baijiu products has a QR code containing product information, which can be automatically displayed by scanning. The whole distribution process can also be recorded by scanning the QR code, according to which our marketing managers can timely identify any possible misconducts during the sales process based on checking and analysis of the records for the expected distribution area, which significantly reduces the labor cost while strengthening the control and management of distributors. In addition, the QR code can serve as an effective marketing tool to attract consumers through incentives and participation in offline activities. For certain of our premium and deluxe products, we incorporate QR code with RFID technology to prevent counterfeiting. The RFID chip, linked with the QR code printed inside the bottle lid, will automatically authenticate the product and enable more accurate and effective anti-counterfeiting.
- **Fengtanjiu (封坛酒) Weixin Applet.** Fengtanjiu is a Weixin applet to directly engage end consumers to create customized shopping experience. Through this applet, consumers who have placed their orders are involved in the design and production of customized baijiu products sealed in vintage jars, known as fengtanjiu. Consumers can customize, place orders and arrange fulfillment with this applet for products under different brands and in different geographic areas. With the support of communication and data transmission technology, the applet also displays

BUSINESS

the photos of sealing process to consumers online, which can be further shared to potential users through forwarding to increase brand awareness.



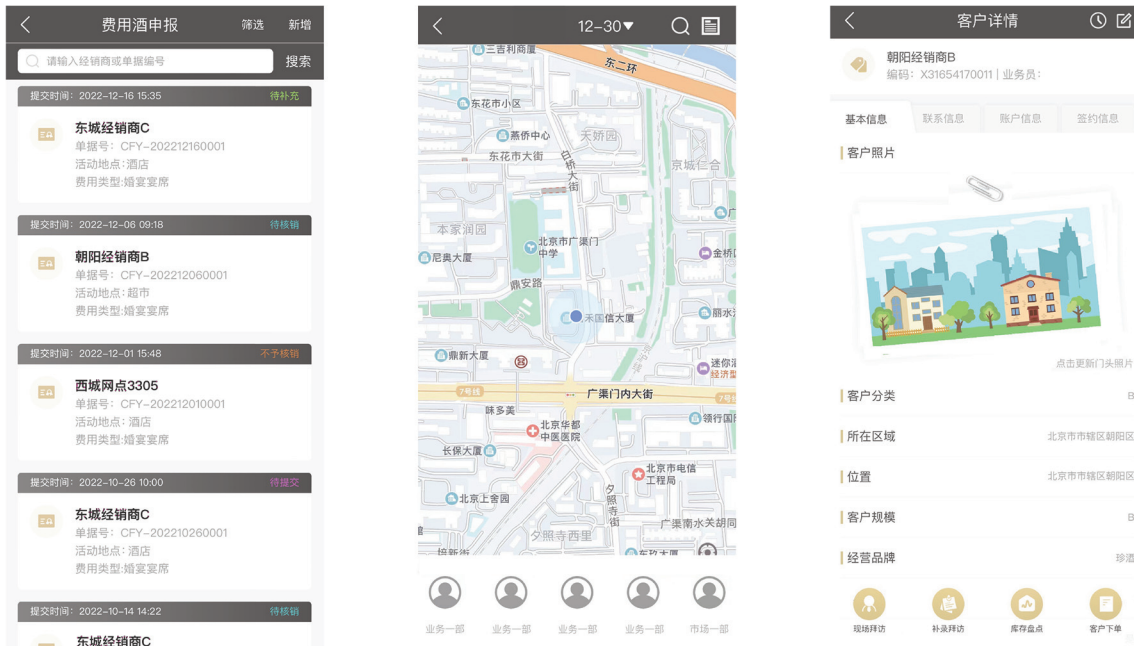
Management Digitalization

Our management-end platforms and systems support front-end tools and our overall operation. By centralizing module parts that are heavily utilized during daily operations into digital infrastructure, management-end platforms are developed to increase data collection unification and consistency, enhance collaboration among different departments, and improve data transparency and accessibility by various functions, each of which will improve our operating efficiency and reduce management cost. For example, we have adopted, among others, the following systems and platforms:

- *ERP System.* Our ERP system consists of the following components: (i) financial accounting; (ii) treasury management; (iii) management accounting; (iv) supply chain management; and (v) asset management. The application of ERP system allows us to achieve better control and tracking of information and records in various stages of our operation process while minimizing human error.
- *Data Middle Platform.* We established our data middle platform that aims to unify our data assets to empower all business departments by providing readily available data models and tools to empower our business development, sales, marketing and consumer operations. Meanwhile, we plan to continue to upgrade and improve our information technology systems to support the growth and expansion of our business operations.
- *Sales Master (掌上珍酒) App.* Sales Master is a mobile application tailored for our sales personnel to optimize their marketing efforts. The App tracks the location of our sales personnel

BUSINESS

and generate the optimal route for consumer visits. In addition, our sales personnel can directly place orders in the App, thereby reducing time costs and accelerating the sales process.



COMPETITION

We operate in a highly competitive and rapidly evolving baijiu market. We currently compete with a large and growing number of nationwide and local baijiu brands with diverse aroma profiles in China based on a number of factors, including brand reputation, product quality and flavors, production capacity, comprehensive business operation capabilities for those expanding nationwide, as well as consumer recognition and precise marketing for those penetrating the regional market. Existing leading baijiu companies have been continuously increasing their market concentration through expansion and mergers, while emerging brands may further increase competition in our industry. Our competitions with nationwide and local baijiu brands, existing leading baijiu brands and emerging baijiu brands with strong growth momentum, are expected to continue and intensify while we expand our market presence.

We believe that we are well-positioned to compete effectively on the basis of the foregoing factors. Nevertheless, our competitors may have longer operating histories, greater brand recognition, larger consumer bases, more established local presence as well as greater financial, technical and other resources. See “Risk Factors – Risks Relating to Our Business and Industry – We operate in a highly competitive and rapidly evolving market in China.” in this document. For more information on the competitive landscape of our industry, see “Industry Overview.”

BUSINESS

LICENSES AND PERMITS

As of the Latest Practicable Date, we had obtained requisite licenses, approvals and permits from relevant governmental authorities that are material to our business operations in China. The following table sets out a list of the material licenses and permits currently held by us.

<u>Name of Licenses, Permits and Approvals</u>	<u>Holder</u>	<u>Expiry Date/ Registration Status</u>
Food Production License (食品生產許可證)	Zhenjiu Brewing	March 24, 2027
Water Drawing License (取水許可證)	Zhenjiu Brewing	April 17, 2024
Pollution Discharge Licenses (排污許可證)	Zhenjiu Brewing	January 14, 2028 and November 14, 2026
Food Operation License (食品經營許可證)	Zhenjiu Sales	September 26, 2023
Food Operation License (食品經營許可證)	Zhenjiu Trading	September 19, 2024
Food Production License (食品生產許可證)	Hunan Xiangjiao	August 19, 2026
Pollution Discharge License (排污許可證)	Hunan Xiangjiao	November 17, 2026
Food Operation License (食品經營許可證)	Hunan Xiangjiao Sales	June 23, 2026
Food Operation License (食品經營許可證)	Shaoyang Xiangjiao	December 9, 2026
Food Production License (食品生產許可證)	Jiangxi Lidu	December 5, 2026
Water Drawing License (取水許可證)	Jiangxi Lidu	December 26, 2026
Pollution Discharge License (排污許可證)	Jiangxi Lidu	August 14, 2027
Food Operation License (食品經營許可證)	Jiangxi Lidu Sales	December 19, 2023

PROPERTIES

As of the date of this document, we owned 24 parcels of land in China with an aggregate gross site area of approximately 3,041,743 square meters, and owned 218 buildings with an aggregate gross floor area of approximately 809,237 square meters. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules.

As of the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in

BUSINESS

this document any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

As of the Latest Practicable Date, we, as the landlord, leased out one building and, as the tenant, leased 43 buildings for warehouses and offices.

Owned Properties

Land

As of the date of this document, we owned 24 parcels of land in China with an aggregate gross site area of approximately 3,041,743 square meters.

Buildings in Use

As of the date of this document, we owned 218 buildings located in China, with an aggregate gross floor area of approximately 809,237 square meters. These buildings are mainly designated to be used as our distilleries and auxiliary production facilities.

As of the date of this document, we have not obtained the building ownership certificates for four of our 218 buildings with an aggregate gross floor area of approximately 12,118 square meters. As advised by our PRC Legal Advisor, the lack of such building ownership certificates does not subject us to any administrative penalty under applicable PRC laws and regulations, but we may not transfer, mortgage or disposal of the underlying properties until we obtain the relevant building ownership certificates.

For two out of those four buildings with an aggregate gross floor area of approximately 5,252 square meters, we have not obtained the building ownership certificates since we have not completed the required as-built acceptance filings (竣工驗收備案) and/or certain related procedures, as the case may be, for these buildings. For the remaining two buildings with an aggregate gross floor area of approximately 6,866 square meters, we were in the process of applying for the building ownership certificates as of the Latest Practicable Date. While we have not received the building ownership certificates, we have completed the as-built acceptance filings for these two buildings. As preconditions for such as-built acceptance filings, relevant local governmental authorities and parties responsible for the design, construction, survey and quality control of these buildings have thoroughly inspected the safety conditions of, including their fire safety, in accordance with applicable regulations, rules and standards.

Our PRC Legal Advisor has advised us that, with respect to each building that was put into use before we complete the required as-built acceptance filing and/or certain related procedures, we may be ordered to take remedial measures, and the relevant governmental authorities may impose fines on us. As advised by our PRC Legal Advisor, the maximum amount of fines that we may be subject to for the two buildings would be approximately RMB1 million.

BUSINESS

As of the date of this document, we were in the process of preparing our applications for the as-built acceptance filings for those two buildings currently in use. The expected time for completion of the as-built acceptance filings is subject to various factors that may be out of our control, which include the application review process of the relevant local governmental authorities. Nevertheless, we have been and will continue mobilizing our internal resources and using all commercially reasonable efforts to complete such procedures as soon as possible.

As a form requirement to complete the applications for the as-built acceptance filings for the two buildings, we engaged qualified third-party appraisers to conduct independent inspections on those buildings. As confirmed by these third-party appraisers, all of the two buildings have met the applicable criteria and standards in all material aspects, such as construction, fire safety and environmental protection, for submission of applications for the as-built acceptance filings.

In addition, we have obtained confirmations from the competent governmental authorities, that (i) there had been no administrative penalty that was imposed on us for our use of the two buildings during the Track Record Period, and (ii) we will not be subject to any administrative penalties for our use of the two buildings. Based on such confirmations, our PRC Legal Advisor is of the view that (i) the risk that the relevant governmental authorities impose a material administrative penalty on us, including suspending production and business operations, demolishing the buildings in a prescribed period and confiscating the buildings, due to our use of the two buildings before completing the required as-built acceptance filings and/or certain related procedures is remote, and (ii) there would be no substantial legal impediment for us to obtain the required as-built acceptance filings and the building ownership certificates if we submitted the applications along with the required materials and documents to the relevant governmental authorities to their satisfaction.

Buildings under Construction

As of the date of this document, we also had 27 buildings under construction with an aggregate designed gross floor area of approximately 287,949 square meters.

As of the date of this document, we were not aware of any actual or contemplated actions, claims or investigations by any relevant governmental authorities or third parties against us with respect to the lack of building ownership certificates for our buildings in use or the applicable permits, certificates and approvals for our buildings under construction. On this basis and having considered confirmations from the relevant local governmental authorities and our PRC Legal Advisor’s advice, our Directors believe that the lack of such relevant permits, certificates and approvals will not, individually or in the aggregate, materially affect our business and results of operation. Nevertheless, the Controlling Shareholder [has] agreed to indemnify our Group for all the losses and damages arising from the lack of the building ownership certificates for our buildings in use or the applicable permits, certificates and approvals for our buildings under construction.

We have implemented internal control measures to ensure our compliance with property laws and regulations. See “— Risk Management and Internal Control.”

BUSINESS

Leased Properties

As of the Latest Practicable Date, we leased 43 properties with an aggregate gross floor area of approximately 189,262 square meters for our office space and warehouses across China. Our leases generally have a term ranging from one to ten years. We are generally allowed to terminate lease agreements with a prior notice, which provides us with operational flexibility, albeit usually at the cost of forfeiting deposits and/or paying a termination fee.

Title Defects

As of the Latest Practicable Date, 20 of our leased properties in China that are used as warehouses and office space with an aggregate gross floor area of approximately 11,851 square meters were subject to potential title defects, representing approximately 6.3% of the total gross floor area of our leased properties in China. The lessors of such leased properties had not provided us with the relevant title ownership certificates for the leased properties or proof of authorizations from the property owners to sublease the properties to us. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any safety issues or disputes with respect to these defective leased properties.

As advised by our PRC Legal Advisor, without ownership certificates or proof of authorizations from the property owners, our use of these defective leased properties may be affected by third parties' claims or challenges against the lease rights. In addition, if the lessors do not have the requisite rights to lease these defective leased properties, we may be required to vacate these defective leased properties and relocate our office space and warehouses. If we were ordered to evacuate from these defective leased properties, we estimate to complete the relocation within half to two months, without incurring material related loss, which could result in an aggregate cost of approximately RMB0.3 million, based on the currently available information and to our best knowledge. However, in the event that we are unable to continue using these defective leased properties, based on the advice of our PRC Legal Advisor, we, as the tenant, will not need to continue to pay the rents. Additionally, it is the lessors' responsibility to provide the title ownership certificates or proof of authorization from property owners for the entry into the leases, and, as a tenant, we will not be subject to any administrative punishment or penalties in this regard. These statutory protections significantly mitigate our risks arising from these defective leased properties in the event that the legal owners of the properties claim for vacation. See also “Risk Factors – Risks relating to Our Business and Industry – We may not be able to fully control our leasehold interest in these premises, or renew our current leases or locate desirable alternatives for our leased premises.”

Having considered the foregoing, our Directors believe that these title defects described above will not, individually or in the aggregate, materially affect our business and results of operation, on the grounds that: (i) during the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, our leases with respect to these defective leased properties had never been challenged by any third parties, (ii) given that a substantial portion of our landlords are sizable commercial real estate developers, we believe the risk that we are required to vacate and relocate from these premises is remote, (iii) considering these defective leased properties are geographically dispersed across China under the jurisdiction of different local governmental authorities, we believe it is unlikely that we would be at the same time subject to claims of rights from various third parties or required by the governmental authorities to relocate with respect to a significant number of these defective leased properties, and (iv) we have enhanced our internal control measures and procedures to prevent the leasing of properties with title defects.

BUSINESS

Lease Registration

Our 43 leased properties are required by the applicable PRC laws and regulations to be registered and filed with the relevant land and real estate administration bureaus in China, among which 33 had not been so registered or filed as of the Latest Practicable Date. This was because the relevant lessors did not provide us with the necessary documents for us to register the leases. These 33 properties have an aggregate gross floor area of approximately 123,073 square meters, accounting for approximately 65.0% of the total gross floor area of our leased properties in China. As advised by our PRC Legal Advisor, failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements. However, the relevant PRC authorities may impose a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease, and the aggregate amount of maximum fine will be approximately RMB330,000. See also “Risk Factors – Risks relating to Our Business and Industry – We may not be able to fully control our leasehold interest in these premises, or renew our current leases or locate desirable alternatives for our leased premises.”

Having considered the foregoing, our Directors believe that the non-registrations of leases described above will not, individually or in the aggregate, materially affect our business and results of operation, on the grounds that: (i) no penalty had been imposed on us for our failure to register and file the relevant lease agreements during the Track Record Period and up to the Latest Practicable Date, (ii) we were advised by our PRC Legal Advisor that, if the lease registration can be completed within the prescribed time limit ordered by the competent governmental authorities, the risk of governmental authorities imposing a material penalty on us with respect to these leased properties is remote, (iii) we have designated a dedicated team to work on the lease registration by proactively communicating with the lessors to obtain their cooperation and collect the application documents for the relevant lease registration, and (iv) we have enhanced our internal control measures and procedures to prevent re-occurrence of such non-compliance incidents.

INTELLECTUAL PROPERTY

We regard our patents, copyrights, trademarks, domain names, know-hows, proprietary technologies, trade secrets and other intellectual property rights as critical to our business operations. As of the Latest Practicable Date, we had registered two software copyrights, five copyrights, 151 patents, 1,012 trademarks and ten domains in China. In addition, we had submitted applications for 36 patents and 101 trademarks as of the Latest Practicable Date.

We rely primarily on a combination of patents, copyrights, trademarks, trade secret and unfair competition laws and contractual rights, such as confidentiality agreement, to protect our intellectual property rights. We clearly state all rights and obligations regarding the ownership and protection of intellectual properties in all employment agreements and commercial agreements we enter into. In addition, we have taken the following key measures to protect our intellectual property rights: (i) implementing a set of comprehensive internal policies to establish robust management over our intellectual property rights, (ii) deploying a special team to guide, manage, supervise and monitor our daily work regarding intellectual properties, (iii) timely registration, filing and application for ownership of our intellectual properties, and (iv) engaging professional intellectual property service providers.

We intend to protect our technology and proprietary rights vigorously, but there can be no assurance that our efforts will be successful. During the Track Record Period and as of the Latest Practicable Date, we

BUSINESS

had not been subject to any material intellectual property infringement claims and/or suffered any material infringement of its intellectual property rights by third parties (including counterfeiting issues). Nevertheless, third parties may from time to time initiate litigations or claims against us alleging infringement of their proprietary rights, or declaring their non-infringement of our intellectual property rights. See “Risk Factors – Risks Relating to Our Business and Industry – We may not be able to protect our intellectual property rights, and our ability to compete effectively may be harmed if our intellectual property rights are infringed by third parties” and “Risk Factors – Risks Relating to Our Business and Industry – We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business.”

INSURANCE

We maintain regular property insurance. However, the insurance may not be able to cover all potential injuries to our equipment and facilities, death or losses due to fire, earthquake, flood or any other disaster in China. Consistent with customary industry practice in China, we do not maintain business interruption insurance, nor do we maintain key-man life insurance. We believe our insurance policies as a whole are in line with the general market practice and comply with the relevant rules and regulation in China. See “Risk Factors – Risks Relating to Our Business and Industry – We may not have sufficient insurance coverage to cover our potential liability or losses.”

EMPLOYEES

As of December 31, 2022, we had 10,976 full-time employees. The following table sets forth the number of our full-time employees by function as of December 31, 2022.

Function	Number of Employees	% of Full-time Employees
Production and operation	5,831	53%
Branding and marketing	4,060	37%
Product development and quality control	195	2%
General and administrative	890	8%
Total	10,976	100%

Our success depends on our ability to attract, retain and motivate qualified employees. We recruit employees primarily through on-campus job fairs and online channels, including our corporate website and third-party employment websites. We believe we offer our employees competitive compensation packages and an environment that encourages self-development and, as a result, we believe we have been able to attract and retain qualified employees and maintain a thriving team.

In addition, we place strong emphasis on providing trainings to our employees to enhance their professional skills, understanding of our industry and workplace safety standards, and appreciation of our corporate values, especially our unwavering commitment to product quality and food safety as well as satisfying consumer services. We offer onboarding trainings for all new hires, covering introduction to our brands, products and corporate values, and the overall production standards, sales policies and code of conducts. We also design and offer targeted training programs for employees at various positions. For instance, for staff at quality control department, we provide both internal and external trainings on topics such as food safety and physicochemical analysis.

BUSINESS

As required by PRC laws and regulations, we participate in housing fund and various employee social insurance plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans. We are required under PRC laws and regulations to contribute to employee social insurance plans at specified percentages of the salaries, bonuses and certain allowances of our employees.

We believe that we maintain respectful relationship with our employees. We had not experienced any material labor disputes or any difficulty in employee recruitment during the Track Record Period and up to the Latest Practicable Date.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Corporate and Sustainability Governance

We are fully aware of our responsibilities toward the society and the natural environment. We strive to elevate the standard of living, wealth and quality of life in the local communities. As a corporate citizen, we demonstrate our strong ESG commitment by alleviating any environmental damage that may be caused by our commercial activities as well as by safeguarding our community through various social responsibility initiatives.

In order to achieve a sustainable and high-quality development, our Board of Directors has adopted a comprehensive policy on environmental, social and governance responsibilities (the “**ESG Policy**”), which sets forth our ESG strategic goals and provides ESG related practice guidance for our daily operations. The management and supervision of environmental, social and governance (“**ESG**”) matters is an important part of our corporate governance. Accordingly, we have formed a three-layer ESG governance structure (namely governance layer, management layer and executive layer) in accordance with external regulatory requirements and our own operating procedures. We will also issue annual ESG report to promulgate our efforts and achievements in the ESG arena.

Our Board has the overall and collective responsibility to ensure an effective ESG risk management and internal control mechanism with periodic review on its effectiveness in safeguarding our Group’s assets and Shareholders’ interests. Enterprise risk assessment will be conducted annually to evaluate the current and potential risks in the area of businesses where we operate, including but not limited to the risks arising from ESG and climate-related matters. Our Board will continuously assess or engage qualified independent third parties to evaluate the risks in our operations and to review our Group’s existing risk management strategy, metrics and targets as well as internal control systems. Any improvement measures will be incorporated and implemented to manage and mitigate such risks identified. See “– Risk Management and Internal Control” for further details of our risk management and internal control policies, especially the measures related to anti-money laundering, anti-bribery and anti-corruption.

To better implement our ESG policies and measures, we have established an ESG Committee which comprises representatives from our Board and is chaired by our CEO. Our Directors consider that establishing and implementing sound ESG principles and practices will increase the value of our Company and encourage long-term return to our stakeholders. Our Group will have governance measures in place to monitor and collect ESG-related data to prepare disclosure in compliance with requirements of the

BUSINESS

Environmental, Social and Governance Reporting Guide (“**ESG Reporting Guide**”) in accordance to Appendix 27 of the Listing Rules, upon the Listing or when appropriate. To ensure the effectiveness of our ESG risk management measures and internal control systems, our ESG Committee is responsible for overseeing the formulation and reporting of our ESG strategies and determining the ESG-related risks. In addition, we intend to, among others, identify the material ESG areas, discuss with our key stakeholders regarding the material ESG areas identified and discuss among our management to ensure all material ESG areas which are important to our business operation and development are reported and comply with the ESG Reporting Guide.

At the management level, we have established an ESG Executive Committee to assist the ESG Committee in formulating and implementing ESG-related policies and procedures. Furthermore, ESG executive teams from each brand are established under the ESG Executive Committee to execute and implement ESG-related work in our day-to-day operations.

We have engaged a reputable consulting firm to assist our ESG management team in conducting a comprehensive ESG diagnosis and review on our business operations. According to their professional advice, we have developed our ESG scope and enhancement plan.

Materiality Assessment and Priority Setting

In the context of the rapidly changing market and emerging stakeholder expectations, we strive to position ourselves as a leader in ESG performance in China’s baijiu industry through identifying risks and opportunities, balancing and addressing stakeholders’ interests, and making informed decisions. We conducted a materiality assessment to identify ESG topics that are material to us, from which we are able to prioritize ESG aspects and strategize our action plan.

We identified important topics with reference to HKEX, SASB and MSCI standards, as well as benchmarking with leading domestic and foreign industry players. We also engaged selected internal and external stakeholders such as consumers, local suppliers, government parties and shareholders via interviews to determine the perceived importance of those identified ESG topics.

We take both internal and external materiality assessments into account. The ESG Executive Committee leads the internal materiality assessment by assessing and determining the materiality of each provision in the ESG Reporting Guide. The internal materiality assessment takes into consideration factors including but not limited to the key company values, policies, strategies and objectives; direct financial impact; ESG issues and metrics of concern to internal stakeholders; company’s core competencies and strengths; reputational risks and opportunities; and key issues in the baijiu industry. The external materiality assessment takes into account ESG issues and metrics of interest from external stakeholders, key ESG issues of interest from our competitors, policy guidelines, international agreements or voluntary agreements that are of strategic importance to the company and ESG risks or opportunities identified by qualified independent third parties after in-depth investigation.

Based on our evaluation as well as internal and external inputs, we identified certain material ESG topics. Our material topics are closely aligned with our ESG strategic priorities. The results from our materiality exercise enable us to address stakeholder expectations and develop our ESG strategies with better priority setting and more efficient resource allocation.

BUSINESS

Environmental Sustainability

We are subject to different local and national environmental legislation and regulations. We believe that the overall regulatory climate is becoming increasingly strict with respect to environmental issues and expect this trend to continue in the future. Thus, we strictly adhere to our environmental policy to meet or surpass applicable standards and legislation regarding the emission of gas and liquid effluents, the disposal of solid waste, noise levels and contamination of premises. All of our operations at our *Zhen Jiu*, *Li Du* and *Xiang Jiao* distilleries met the applicable environmental standards and climate-related policies during the Track Record Period and therefore we did not incur any material cost in connection with compliance with environmental laws and regulations or any remediation efforts. However, to further improve our emission standard of wastewater and exhaust gas, we voluntarily replaced coal-fired boilers with natural gas boilers and upgraded the sewage treatment systems during the Track Record Period, incurring annual cost of RMB7.5 million, RMB3.3 million and RMB8.1 million in 2020, 2021 and 2022, respectively. While not all operational and financial impact from the future implementation of various ESG initiatives can be quantified, the following aspects of potential impact are selected and estimated.

As for carbon emission reduction, together with the photovoltaic service provider, we are currently in the process of designing and refining our construction plan and we aim to establish solar panel instalment on the roof of our production facilities at *Zhen Jiu*, *Li Du* and *Xiang Jiao* in the near future. Assuming the areas with solar panels installed is approximately 220,000 sqm, the use of photovoltaic power can roughly save electricity costs by RMB1.5 million per year and can further ensure the stability of electricity supply in peak seasons. On the other hand, to further increase the percentage of renewable energy in our energy mix, the purchase of renewable energy certificates will likely increase our annual cost by RMB0.5 million, assuming a total of 10,000 certificates to be purchased annually.

As for green packaging, with *Zhen Jiu*'s aim to replace ceramic bottles with glass bottles in certain product series in 2023, the substitution can potentially save procurement cost by approximately RMB5.4 million, assuming 380,000 ceramic bottles are to be replaced. On the other hand, with *Li Du* and *Xiang Jiao*'s aim to replace foam with pearl cotton, which is recyclable and more eco-friendly, the packaging cost will be likely to rise by RMB0.4 million per year.

Water Stewardship

Water supply and water quality is of significant importance to our baijiu production. As a responsible baijiu company, it is our role to work towards water stewardship throughout our operations and make every drop of water count. We have updated the water related measures in our environmental policy emphasizing our commitment to minimizing the environmental impact of wastewater discharge, reducing water usage and protecting the ecosystem of watersheds in which we operate.

We have set stringent criteria for wastewater discharge, enabling us to fully meet or surpass local and national regulatory standards. To control water pollution from its source, we have implemented a diversion system to separate rainwater, production wastewater and domestic wastewater. Each of our production facilities is equipped with wastewater treatment plant(s). We aim to further reduce chemical oxygen demand (COD) and ammonia nitrogen in sewage in order to return all wastewater to the environment in a most eco-friendly way.

BUSINESS

To unlock higher water use efficiency, we have implemented multiple measures including assigning designated personnel to restrain water wasting as well as setting water use efficiency as a KPI for each production facility. Particularly, at our *Zhen Jiu* production facility, the water-cooling system was replaced by air-cooling in 2021, which saved over 390,000 tons of water in 2021. If future capacity expansion is taken into account, the switch from water-cooling system to air-cooling could help our *Zhen Jiu* production facility save around 4,000,000 tons of water in 2025.

Against a 2021 baseline, we aim to continuously improve water use efficiency with the goal to save an additional 200,000 tons of water in 2025 by implementing supplementary measures including the recycling of cooling water and bottle-cleaning water, utensils water-saving transformation and overflow pipe system water-saving transformation. Our total water usage was 1,306,798 tons in 2021, resulting an average water use efficiency of 118 tons of water per ton of base liquor, which is expected to be improved to around 114 tons of water per ton of base liquor in 2025.

Beyond our operation, we attach great importance to the protection of local ecosystem. In partnership with local stakeholders, we have kept our water stewardship efforts by engaging in multiple watershed protection programs, such as riverway cleaning activities and ecological reconstruction of the rivers in the Zunyi region. See “– Distillery Development and Sustainable Construction.”

Waste Management

To minimize the environmental impact of solid waste and waste gas, we have updated the waste management measures in our ZJLD Environment Policy for compliance with regulatory requirements on waste discharge while seeking for continuous reduction on environmental pollution or waste of resource.

Measures we have taken as solid waste management include separated storage of hazardous waste, sale of vinasse to third parties for reutilization, recycling and reuse of pit mud in plants and dewatering sludge mechanically so that it can be landfilled or sent out as agricultural fertilizer. Furthermore, we actively take actions to mitigate the environmental impact of exhaust gas, including switching coal-fired boilers to natural gas boilers, equipment of bag dust collectors and cyclone dust collectors, installment of oily smoke purification devices, etc. Our waste gas emission complies with national standards. To further reduce solid waste, one of our near-term plans is to conduct experiments and tentatively replace disposable plastic pit covers (窖帽) with covers made from stainless steel. To further track and record the amount of exhaust gas, one of our near-term plans is the installation of exhaust gas monitoring systems for better assessment of the total discharge amount and understanding the corresponding environmental impact.

Climate Change and Energy Consumption

As our business relies on high-quality agricultural commodities such as sorghum and rice, water resources and energy, our operation and value chain are closely tied to the natural environment, which is directly impacted by climate change. An increase in frequency and intensity of extreme weather and natural disasters caused by climate change may have a negative effect on agricultural productivity which in turn leads to decreased quality, decreased availability or less favorable pricing for certain agricultural commodities necessary for our production. Recognizing the urgent need for climate action, we released our first climate policy in 2022, outlining our climate change mitigation and adaptation strategy. Based on the

BUSINESS

climate policy, we are committed to achieving 20% reduction in carbon emission intensity of our direct operations (scope 1 & 2) by 2025 against a 2021 baseline. Our total carbon emission (scope 1 and 2 with major energy consumption including natural gas, electricity and diesel taken into account) was 35,115 tons in 2021, resulting an average carbon emission intensity of 3.2 tons per ton of base liquor and we are committed to further decrease the intensity by 0.6 ton per ton of base liquor in 2025.

To fulfill our climate commitment, we adopt a range of energy reduction and carbon reduction measures. All our production facilities have converted coal-fired boilers to natural gas boilers. We have gradually deployed energy-efficient production facilities and electric forklifts, reduced standby time of machines, adjusted transformers to distribute the electricity load more rationally and adopted frequency conversion control to improve electricity consumption efficiency. We are also in the process to phase out inefficient equipment which will be substituted by high energy-efficient facilities. In addition, our *Zhen Jiu* production facility has taken the initiative of odd-even private car license plate admission regulation and encouraged employees to take commuter bus; our *Li Du* production facility used solar energy to power streetlights within the production facility. We aim to continuously increase the percentage of renewable energy in our energy mix by installing solar panels on the roof of our production facilities and utilizing photovoltaic power, purchasing green electricity and/or renewable energy certificates, participating in carbon offset programs and other applicable initiatives.

We have set up the energy assessment system and regularly carry out analysis on our electricity and gas consumption, enabling us to implement necessary and efficient measures to track the progress towards our carbon reduction goal. The following table sets forth our major energy consumption data for the periods indicated:

	<u>2020</u>	<u>2021</u>	<u>2022</u>
Electricity (kWh)	7,494,238	11,791,980	19,064,686
Electricity consumption intensity (kWh/ton*)	833	1,066	681
Gas (m ³)	7,820,354	13,928,629	28,820,194
Gas consumption intensity (m ³ /ton*)	869	1,259	1,030

Note:

* Base liquor yield in tons

Sustainable Packaging

In the baijiu industry, products with luxury packaging tend to enjoy competitive advantage to a certain extent. We are fully aware the fact that excessive packaging will also have a negative externality on the environment, and we are determined to initiate a series of enhancement plans and strive to lead sustainable packaging practice in the baijiu industry. We have updated our packaging policies to clarify the terms of packaging management and set a strategic target of using at least 95% sustainable packaging materials (by weight) by 2025, taking the industry lead in sustainable packaging.

We used 47,206 tons of packaging materials in total in 2022, of which approximately 45,912 tons are sustainable packaging materials, representing approximately 97% of our total packaging material usage by weight. Actions we have taken to maintain our sustainable packaging commitment include but are not limited to replacing foam with pearl cotton which is recyclable and more eco-friendly, changing some

BUSINESS

popular products’ bottle material from ceramic to glass, and prioritizing cooperation with packaging suppliers who meet national environmental protection requirements. At the same time, our distilleries are working with suppliers to develop packaging materials that are made up of bio-based eco-friendly materials and such packaging which will be launched in the near future.

In addition, to further reduce the excessive product packaging, we have launched a range of products that are outer-packaging-free, leading the industry’s sustainable packaging practice. In addition, for *Li Du*’s core product Li Du Sorghum 1308, we presented external packaging free option which offers moderately price discount to encourage environmentally friendly consumption. To further reduce our packaging material consumption, we are currently under the process of product sampling and we plan to introduce a wider range of products that are outer-packaging-free to carry out our material reduction practice in the near future.

Although promoting bottle recycling has always been a challenge in the baijiu industry, we are determined to pioneer in the bottle recycling arena. We have generated various reuse ideas for our bottles, for example when consumers return empty bottles to certain designated stores, such stores will revive those bottles to creative household products such as tea cans, vases and other cultural decorations for free.

Distillery Development and Sustainable Construction

In response to the increasing demand for our products, we are proactively building additional sites to further expand our production capacity. We take a sustainable approach when designing and constructing new production facilities. During designing phase, we strive to use the most environmentally friendly types of materials and equipment to minimize environmental impact. During the construction, we require our contractors to develop guidelines to minimize energy consumption and the influence on the environment and regularly monitor the construction process to ensure that our guidelines are duly adhered to.

The design and construction of our *Zhen Jiu* (Moutai Town Shuang Long) (茅台鎮雙龍) production facility embody our commitment to a sustainable future. *Zhen Jiu* (Moutai Town Shuang Long) (茅台鎮雙龍) production facility is located in Guizhou’s Zunyi region, where all of its rivers are affiliated to Yangtze River Basin. Home to more than 3,000 species of vascular plants, 44 species of national protected animals and dozens of fish species, the Zunyi region is a key to the biodiversity of the entire Yangtze basin. Fully aware of the importance of ecological balance, we aim to create ecological value through our Zhenjiu Manor project by maximizing our environmental conservation efforts. In the design phase, we have taken necessary sewage treatment plant and water recycling system into consideration. The disposal facilities for domestic waste and sewage will take into consideration the improvement of the living environment surrounding our site. We select eco-friendly building materials and take the prefabricated construction system approach which reduced the work of cast-in-situ concrete by 80% and abated significantly secondary pollution. To minimize our energy consumption, all the streetlights will be powered through solar energy and we purchased the highest energy-efficient equipment whenever possible. Once completed, this ecological reconstruction project will benefit the local community as well as downstream ecosystem.

To ensure our distillery development and construction are continuously of high standard, *Zhen Jiu* has further implemented Green Factory Development Plan, promoting infrastructure intensification and cleaner production. Our relentless effort was also recognized by Department of Industry and Information

BUSINESS

Technology of Guizhou Province; in 2022, *Zhen Jiu* was elected in the Guizhou Green Manufacturing List, inspiring us to continue to promote sustainable construction and green operations.

Social Sustainability

We believe social sustainability for a company is more than just a sought-after business trend for us to follow. Rather, it promotes the health, safety, and wellbeing of our employees, consumers, stakeholders, and members in the community and will eventually make an extensive and profound impact on our business. Therefore, we aim to continuously improve our social sustainability and strive to lead our industry in this regard. Examples of our achievements and initiatives in the area of social and community responsibility include the following:

Responsible Marketing and Smart Drinking

While we appreciate the power of our brands to enrich the experience of life, our brand culture values tasting wisely and responsibly. We aim to contribute to the United Nations Sustainable Development Goal of good health and well-being by strengthening the prevention of harmful use of alcohol. Thus, we strictly comply with applicable laws and regulations to ensure our marketing practices are responsible. In addition, we strictly adhere to our responsible marketing policy, which clearly stipulates the application and review procedures when displaying advertisements and explicitly prohibits certain actions or wording throughout our marketing practices.

We place warning labels on all our baijiu products to meet regulatory requirements and to promote responsible drinking. Additionally, we have requested age verification on all of our major online platforms including websites and self-built mini apps, etc. Furthermore, we scrutinize our marketing strategies, leaning to select channels and media with higher rate of legal drinking age communities (e.g., airport) and promoting premiumization as premium and above baijiu products targeted at more mature consumers. Our corresponding personnel in distilleries conducts regular content check on advertisements to prevent misleading or exaggerated claims.

We have launched several smart drinking campaigns to educate the public about the harm of underage drinking and the danger of drinking after driving, and to promote a more enjoyable drinking experience for the public. We also intend to organize more education events by cooperating with local government and other non-governmental organizations in the future to fulfill our social responsibility.

We managed to prevent harmful use of alcohol products sold through our distribution network through various measures. One of the measures we have adopted is to add responsible drinking hints on our online and offline branding materials, which are shared by distributors with our end consumers. We tailor our posters as well as marketing scripts to prevent drunk driving in the baijiu tasting events that we regularly hold.

Supply Chain Management

Our suppliers mainly include crop suppliers, bottle suppliers and packaging materials suppliers, which could all make profound impact on the safety and quality of our products as well as our overall brand

BUSINESS

image. Therefore, we have stipulated supplier qualification policy, based on which we select our suppliers carefully according to their historical quality performance and we have conducted comprehensive incoming quality control (IQC) on every batch of raw material.

In addition, we also exert impact on our suppliers to comply with relevant environmental and social regulations. We strictly adhere to our responsible purchasing policy which stipulates the environmental and social risk management mechanisms regarding our suppliers (with areas covering supplier onboarding, supplier audit and regular evaluation). We have developed an evaluation mechanism to assess our suppliers' ESG compliance status on an annual basis. In our assessment form, issues related to use of child or forced labor as well as any incidence of major environmental non-compliance will cause immediate termination of business cooperation with the suppliers. Besides, our supplier assessment form also takes other environmental and social assessment items into account, including their practice in energy saving, waste management, labor law compliance and work safety. The score of ESG assessment for each supplier will be linked to supplier's overall annual performance and an unsatisfactory ESG score will negatively impact the supplier's future contract renewal. We have also included anti-corruption clauses in our agreements with our suppliers to prevent collusion and corruption.

Rural Revitalization and Poverty Alleviation

As a leading business in the communities in which we operate, we are obligated to contribute to rural revitalization and poverty alleviation in our community. We have also been sourcing and purchasing agricultural materials locally, thereby supporting farmers in the surrounding low-income areas to grow crops with greater confidence and assurance.

With the growth of our business, we have driven the development of over 253,000,000 m² of red tassel sorghum planting base in Guizhou Province. We launch the initiative of “company + planting base + agricultural cooperatives + farmers” order model to effectively reduce costs along the supply chain. In the future, we hope to boost rural employment by 50% and double the upstream agricultural procurement by 2025, compared to a 2021 baseline.

In addition, we have aided the government in the development and renovation of village roads and infrastructure. We also provided over RMB59,900 in total, in the form of monetary and material donations, to promote poverty reduction in local poverty-stricken areas from 2020 to 2022.

Our accomplishments in promoting rural revitalization and poverty alleviation practices have been widely acknowledged. At the annual meeting of the National Governance Summit on December 1, 2022, directed by the People's Daily and organized by the People's Forum Magazine, our endeavor of high-quality contribution to rural revitalization was selected as one of the ten exemplary cases for rural revitalization, making us the only baijiu company that received this honor.

Moreover, distillery ecotourism is also one of our top priority initiatives. As national 4A-level scenic attractions, we proactively invite nationwide consumers to visit our distilleries and engage them in a variety of immersive experiences to boost local tourism and encourage local economic development. For the old *Li Du* distillery, which is also a cultural heritage from the Yuan Dynasty, the tours also encourage the promotion of the traditional Jiangxi culture.

BUSINESS

Charity and Disaster Relief

We are eager to contribute to the community, and we respond swiftly to natural disasters and pandemics with many donations. From 2020 to 2022, we provided over RMB5,000,000, in the form of monetary and material donations, to flood-affected cities and over RMB8,100,000, in the form of monetary and material donations, to pandemic-prevention efforts in communities where we operate.

Education Support

We appreciate the value of children’s education for the purpose of alleviating poverty and contributed in a variety of ways. We already donated more than RMB22,000,000 to Hunan Youth Development Foundation and China Charity Federation since 2018 to subsidize students from low-income families to attend college. Since 2015, we also contributed a total amount of RMB3,000,000 to the Jiangxi Lidu Education Fund, helping exceptional students from rural areas to higher education.

Workplace Safety and Occupational Health

Our employees’ safety and health are our top priority. We have complied with applicable Chinese laws and regulations on workplace safety and occupational health in every respect. To ensure our employees’ safety and health, we have also stipulated multiple operational procedures and safety standards, including but not limited to fire prevention, occupational health, machine operation, special equipment operation and handling of hazardous chemicals.

We have conducted numerous practices in an effort to further protect our employees from work injury or occupational health diseases, including:

- *Safety committee:* a safety committee comprised of senior management and workshop group leaders has been established at each production facility to oversee production safety.
- *Risk identification:* at each production facility, we have identified safety risks along production processes and developed responsive measures, such as the use of a dust extractor, fall protection netting, and personal protective equipment, etc.
- *Rectification:* with regard to work-related injury, we would conduct an analysis to identify the underlying causes and conduct remediation and preventive work accordingly.
- *Check-ups:* in addition to routine check-ups for all employees, we provide annual occupational medical check-ups for employees whose work is in high-risk category.

Additionally, to mitigate risks along our production processes, we have adopted multiple precautionary measures in line with industry best practices. In particular, to mitigate the risk of dust fire, we conduct lighter check to all employees at the entrance and place dust removers in the qu-making facilities. To mitigate the risk of dust inhalation, we require all workers in the corresponding facilities to wear face masks and provide regular occupational health check-ups to all of our frontline employees. To mitigate the risk of hits by bridge crane, we have taken measures to ensure that bells ring whenever a bridge crane is

BUSINESS

operating and require that all workers stand aside when a bell rings. To mitigate the risk of toxic hazard under fermentation pit in the fermentation and distillation process, we have applied air vent fans to ventilate the pits and conducted oxygen concentration tests before allowing workers to step down into the pits. To mitigate the fire hazard and mechanical injury in the storage, blending and bottling process, we have adopted various fire safety equipment as well as personal protective measures in the production facilities, including fire extinguishers, body electrostatic dischargers and numerous posters showing standard operating procedures for various machines. Specifically, at *Li Du*, each worker is required to wear a special breathable helmet in the workshops or warehouses, leading industry’s best practice.

We used Office Automation (OA) system to report and track workplace accidents. We have not experienced any workplace fatalities during the Track Record Period and up to the Latest Practicable Date. In 2020, 2021 and 2022, the number of workplace accidents was 30, 78 and 110, respectively. The increase in the number of workplace accidents was primarily because we expanded our production capacity during the Track Record Period and the total number of our employees increased accordingly. According to Frost & Sullivan, the number of our workplace accidents as a percentage of the total number of our employees during the Track Record Period was within industry normal range of workplace accident rate. Common workplace accidents include injuries resulting from overexertion, slippery and falls. While making sure each employee in the incident is treated immediately and appropriately, we have adopted multiple remediation measures to mitigate the related hazards, including thoroughly performing incident analysis, optimizing or re-designing machines to better prevent injuries.

Training and Development

We believe that our employees are our most valuable asset, and we strive to provide them with career related training and advancement opportunities. We provide comprehensive training courses to all employees, including new hires and senior management, on topics such as workplace safety, product and food safety, corporate culture, and anti-corruption, in addition to sales skills, negotiation skills, 6S management skills, and machine standard operating procedures, etc.

We have also established a clear path for internal promotions, allowing skilled and capable employees to advance to management positions. We have developed a evaluation system named Five Star Promotion (五星通關). Under such system, employees who have earned five stars through performance evaluation, pertinent training, and knowledge testing are eligible for rapid advancement regardless of their age or background.

Engagement and Wellbeing

Our employees are compensated with a base salary, bonuses, and other benefits. In comparison to the local average, we have provided competitive salaries to all employees, including front-line workers and sales personnel, as well as many non-monetary benefits. We have also established an employee care fund to assist workers who have experienced sudden financial hardship.

Diversity and Inclusion

We strictly adhere to our human resource management policy, which advocates inclusion, diversity, and equality within the Company. We have also established a caring committee for female employees in

BUSINESS

each brand to protect their rights and benefits. We strive to continuously provide better support to the female community through a variety of means, including but not limited to adding more lactation rooms in our workplaces, hosting more seminars for all employees featuring inclusiveness and gender equality and offering more training courses specifically for our female employees. We believe with our best effort, we can create a more female-friendly workplace and thus, increase their participation.

Beyond all our diversity and inclusion initiatives mentioned above, some of our job responsibilities have been redesigned to accommodate workers with certain disabilities. We also do our best to provide employment opportunities to veterans.

AWARDS AND RECOGNITIONS

We had received a number of awards and recognitions for our iconic products from renowned international organizations, including San Francisco World Spirits Competition and the Spirits Selection by Concours Mondial de Bruxelles, for over twenty times from 2015 to 2022.

- Zhen 30 (珍三十) Series was awarded the Double Gold Medal at San Francisco World Spirits Competition in 2022 and the Grand Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles in 2021, respectively. In addition, Zhen 15 (珍十五) Series was awarded the Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles for five times from 2017 to 2022, and won two Gold Medals at San Francisco World Spirits Competition in 2022.
- Li Du Sorghum 1955 (李渡高粱1955) and Li Du Sorghum 1308 (李渡高粱1308) won the Grand Gold Medals from the Spirits Selection by Concours Mondial de Bruxelles in 2015 and 2019, respectively.
- Xiang Jiao Red Diamond (湘窖酒•紅鑽) was awarded the Grand Gold Medal from the Spirits Selection by Concours Mondial de Bruxelles in 2018.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we had not been a party to, and were not aware of any threat of, any legal, arbitral or administrative proceeding, which, in our opinion, would likely have a material and adverse effect on our business, financial conditions or results of operation. We have been, and may from time to time, be subject to various legal claims and proceedings arising in the ordinary course of our business. Litigation or any other legal proceeding, regardless of the outcome, is likely to result in substantial costs and diversion of our resources, including our management’s time and attention. For the potential impact of legal proceedings on us, see “Risk Factors – Risks Relating to Our Business and Industry – We are exposed to the risk of litigation, claims, disputes and regulatory compliance issues, which may cause us to pay significant damage compensations and incur other costs.”

Our Directors confirm that we had complied with the relevant PRC laws and regulation in all material respects and except as disclosed in this section and in the “Risk Factors” section, we had obtained all requisite licenses, approvals and permits from relevant authorities in China during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

Social Insurance and Housing Provident Funds

Background and Reasons for Non-compliance

During the Track Record Period, we had not made social insurance and housing provident fund contributions for some of our employees in full in accordance with the relevant PRC laws and regulations. The shortfall of social insurance and housing provident fund contributions amounted to approximately RMB2.5 million, RMB15.7 million and RMB14.7 million in 2020, 2021 and 2022, respectively. We were unable to make full social insurance and housing provident fund contributions for the relevant employees primarily because, among other reasons, (i) consistent with the industry norm, our labor force is highly mobile, which has made it impracticable for us to make such contributions in time for the relevant employees that left our Group shortly after on-boarding, (ii) due to the lack of indepth knowledge of the relevant requirements of applicable PRC laws and regulations, which may vary from region to region across China, and (iii) many of our employees were not willing to bear the costs associated with social insurance and housing provident funds. In addition, we engaged third-party human resources agencies to pay social insurance and housing provident funds for some of our employees during the Track Record Period due to certain off-site work arrangements with these employees.

Potential Legal Consequences

As advised by our PRC Legal Advisor, pursuant to relevant PRC laws and regulations, the under-contribution of social insurance within a prescribed period may subject us to a daily overdue charge of 0.05% of the delayed payment amount. If such payment is not made within the stipulated period, the competent authority may further impose a fine of one to three times of the overdue amount. Pursuant to relevant PRC laws and regulations, if there is a failure to pay the full amount of housing provident fund as required, the housing provident fund management center may require payment of the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. The maximum potential penalties that we may be subject to for the shortfall of social insurance and housing provident fund contributions during the Track Record Period would be approximately RMB3.74 million.

Latest Status and Remedial Measures

As of the Latest Practicable Date, no administrative action or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance and housing provident fund contributions, nor had we received any order to settle the deficit amount. Moreover, as of the Latest Practicable Date, we were not aware of any material complaint filed by any of our employees regarding our social insurance and housing provident fund policy.

We have taken the following internal control rectification measures to prevent future occurrences of such non-compliance:

- We have enhanced our human resources management policies, which explicitly require social insurance and housing provident fund contributions to be made in full in accordance with applicable local requirements;

BUSINESS

- We are in the process of communicating with our employees with a view to seeking their understanding and cooperation in complying with the applicable payment base, which also requires additional contributions from our employees;
- We have designated our human resources department to review and monitor the reporting and contributions of social insurance and housing provident fund on a monthly basis;
- We will keep abreast of latest developments in PRC laws and regulations in relation to social insurance and housing provident funds; and
- We will consult our PRC legal counsel on a regular basis for advice on relevant PRC laws and regulations to keep us abreast of relevant regulatory developments.

Our Directors are of the view that the above measures are effective and adequate in preventing non-compliance with respect to social insurance and housing provident funds. Based on the independent due diligence work performed by the Joint Sponsors, and having considered the work and procedures performed by the internal control consultant to the Company on its compliance management system in totality, nothing material has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to disagree with the aforementioned view of our Directors in any material respect.

In addition, we have consulted with and obtained confirmations from the relevant local governmental authorities covering substantially all of our employees that: (i) they acknowledge and accept the bases on which our social insurance and housing provident fund contributions were made; (ii) no administrative penalties had been imposed on us for the shortfall during the Track Record Period and up to the date of the consultation, and (iii) they would not initiate any regulatory action to compel us to make supplementary contributions or impose any penalty on us. Our PRC Legal Advisor has advised us that such local governmental authorities are competent to provide the foregoing confirmations.

Based on the foregoing, our Directors believe that such non-compliance would not have a material adverse effect on our business, results of operations or financial condition or the [REDACTED], considering that: (i) we had not been subject to any administrative penalties during the Track Record Period and up to the Latest Practicable Date regarding our social insurance and housing provident fund policy, (ii) we were neither aware of any material employee complaints filed against us nor involved in any material labor disputes with our employees with respect to social insurance and housing provident funds during the Track Record Period and up to the Latest Practicable Date, (iii) as of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities requiring us to pay for the shortfalls or any overdue charges with respect to social insurance and housing provident funds, and (iv) as advised by our PRC Legal Advisor, considering relevant regulatory policies and the facts and the confirmations made by the relevant competent local governmental authorities stated above, in the absence of material employees' complaints, the likelihood that we are subject to collection of historical arrears due to our failure to provide full social insurance and housing provident funds contributions for our employees is remote. As a result, we had not made any provision for the shortfall in our social insurance and housing provident fund contributions during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various risks during our operations. We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations. Our policies and procedures relate to managing our procurement, production, as well as monitoring our sales performance and product quality.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [REDACTED], we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish an Audit Committee to review and supervise our financial reporting process and internal control system. For the qualifications and experience of the committee members, see “Directors, Supervisors and Senior Management;”
- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;
- provide anti-corruption and anti-bribery compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against non-compliance in employee handbooks;
- organize training session for our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies [REDACTED] in Hong Kong;
- enhance our reporting and records system for production facilities, including centralizing their quality control and safety management systems and conducting regular inspections of the facilities;
- establish a set of emergency procedures in the event of major quality-related issues; and
- provide enhanced training programs on quality assurance and product safety procedures.

In addition to the risk management measures we had adopted as discussed above, we have identified certain potential risks that are crucial to our operations and we have adopted corresponding internal control measures to mitigate such risks.

Protection against Counterfeit Products

Our well-established brand recognition in China may attract imitators to produce counterfeit products without our authorization or using similar trademarks. Counterfeiting and imitation may divert our potential consumers from our own products. More importantly, counterfeiting or substandard products could significantly harm our reputation and brand image. See “Risk Factors – Risks Relating to Our Business and Industry – Incidents involving counterfeiting, tampering, adulteration, contamination or mislabeling, as well as adverse public or medical opinions about the health effects of consuming our products, could harm our business” for more details.

BUSINESS

We endeavor to combat counterfeit products to protect our brand integrity. As of the Latest Practicable Date, we have registered 50 trademarks that are material to our business operations. For details, see “Appendix IV – Statutory and General Information”. Our distributors are contractually required to preserve our reputation and brand integrity, and selling counterfeit products is strictly prohibited pursuant to the distribution agreements. We encourage consumers to report unauthorized uses of our brands or counterfeit products to us. We have also been enhancing consumer education by promoting our authentic products through various publicity channel, such as our official accounts on Douyin, Weixin and Weibo. Furthermore, we have dedicated a team to monitoring and handling counterfeiting issues. In the event we identify any counterfeit products, we may initiate legal actions and take other responsive measures based on the advice of intellectual property consultants and attorneys.

Anti-Bribery and Anti-Corruption

In order to maintain our reputation and integrity of our corporate governance, we have implemented anti-bribery and corruption policy which requires our employees to conduct business legally and ethically. Our anti-bribery and corruption policy prohibits our employees to offer unauthorized payment, such as bribes, kickbacks, or benefit to any third party, including government officers, customers, or suppliers, in order to secure or reward an improper benefit. They are also not allowed to accept or solicit any such unauthorized payment. Our anti-bribery and corruption policy also prohibits other misconducts, such as misappropriation and embezzlement, fraud or other illegal activities. Any violation of the policies could result in dismissal and financial fines.

Moreover, we also require our distributors, suppliers and other business partners to undertake anti-bribery commitment in writing that prohibits gifts, rebates, facilitation fees and other illegitimate conducts. Any breach of such commitment could result in termination of collaboration agreements and penalties as appropriate.

Property Laws and Regulations Compliance

With respect to our properties, we have implemented the following internal control measures to ensure our compliance with property laws and regulations:

- before we purchase any properties and enter into any new lease, our Directors and senior management will conduct enhanced due diligence to ensure there are no title issues and legal issues. The enhanced due diligence includes, among others, (i) examining the relevant land use right certificates and building title ownership documents; (ii) verifying such certificates and documents with the land administration authority and building administration authority and confirming the ownership; (iii) checking with building administration authority to ascertain whether any mortgage, charge or other security are attached to the building; and (iv) conducting site visits;
- we will obtain the requisite licenses and permits (including but not limited to land use right certificates and building ownership certificates) as and when required by the laws and regulations and follow the requisite procedures relating to construction and work completion of buildings;

BUSINESS

- we will seek our PRC Legal Advisor’s opinion on the issues relating to title of properties and compliance of property laws and regulations;
- we have established a set of policies and procedures for property purchase and leasing arrangements to enhance our internal approval process;
- for self-construction projects, we have established a set of policies and procedures to obtain relevant permits for acceptance, including but not limited to construction land use planning permit and construction project planning permit, construction permit; and
- our compliance department will monitor the implementation of the above measures and will check whether there is any non-compliance going forward.

Our Directors are of the view that the above measures are effective and adequate in preventing non-compliances with respect to relevant property laws and regulations. Based on the independent due diligence work performed by the Joint Sponsors, and having considered the work and procedures performed by the internal control consultant to the Company, nothing material has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to disagree with the aforementioned view of our Directors in any material respect.

Control of Third-party Settlement Arrangement

Background

Historically, as requested by certain of our distributors, individual customers and suppliers (individual or collectively, the “**Relevant Counterparty(ies)**”), our Group settled transactions with them through the accounts of third parties designated by these Relevant Counterparties (the “**Third-party Settlement Arrangement**”). During the Track Record Period, 3,477 distributors (including 2,092 distributors that are sole proprietorships), 134 individual customers and 142 suppliers settled transactions with our Group under the Third-party Settlement Arrangements. In 2020, 2021 and 2022, the aggregate amount of payment from designated third parties to our Group was RMB759.6 million, RMB1,761.4 million and RMB812.2 million, respectively, representing approximately 22.1%, 24.4% and 10.9% of the total payments received from all customers, respectively. During the same periods, the aggregate amount of payment made from our Group to designated third parties was RMB122.6 million, RMB639.2 million and nil, respectively, representing approximately 12.1%, 20.5% and nil of the total payments made to all suppliers, respectively. No individual Relevant Counterparty had made material contribution to our Group’s revenue or cost during the Track Record Period.

During the Track Record Period, the third parties designated by certain of our Group’s distributors primarily consisted of such distributors’ (i) actual controllers, (ii) actual controllers’ family members, (iii) employees, and (iv) sub-distributors. Meanwhile, our employees also settled payments by their personal accounts upon requests of individual customers and such employees also constitute the designated third parties of such individual customers. During the same period, our Group made payments to designated third parties of certain suppliers primarily including their (i) actual controllers, (ii) actual controllers’ family members, and (iii) employees. Our Directors have confirmed that, none of the designated third parties of

BUSINESS

any distributors or suppliers during the Track Record Period is a connected person of our Group and such designated third parties are independent from each of our Group’s Directors, senior management and Shareholders.

During the Track Record Period, (i) our Group had not proactively initiated any Third-party Settlement Arrangement or participated in other forms in any of such arrangement; (ii) our Group had not provided any discount, commission, rebate or other benefit to any of the Relevant Counterparties to facilitate or incentivize the Third-party Settlement Arrangement; and (iii) the pricing and payment terms of the agreements we entered into with the Relevant Counterparties were generally in line with those of customers and suppliers not involved in the Third-party Settlement Arrangement.

Our Group had ceased all Third-party Settlement Arrangement by June 30, 2022, other than settlements with (i) actual controllers of distributors and suppliers that are sole proprietorships, and (ii) distributors and suppliers who have provided a designation letter (the “**Designation Letter**”) to the designated third parties on a case-by-case basis subject to prior written approval from our Group. From June 30, 2022 to the Latest Practicable Date, the aggregate amount of payment from designated third parties to our Group under the Third-party Settlement Arrangement was RMB325.8 million. Our Group considers that the cessation of arrangements did not have, nor will have, any material adverse effect on the business, operations and financial results of our Group. As advised by our PRC Legal Advisor, the Third-party Settlement Arrangement under (i) and (ii) are not in breach of mandatory requirements of current PRC laws and regulations.

Reasons for Utilizing Third-party Settlement Arrangement

The use of the Third-party Settlement Arrangement is primarily due to the following reasons:

- (i) *Industry norm*: many of our Group’s distributors and suppliers are small-sized private business in the form of sole proprietorship or small and medium-sized enterprises. As confirmed by Frost & Sullivan, for convenience purpose, it is not uncommon for the personal accounts of such distributors and suppliers’ (a) actual controllers, (b) family members of the actual controllers, and (c) employees, to be used for corporate transaction settlements;
- (ii) *Offsetting arrangement between distributors and sub-distributors*: as instructed by certain of our Group’s distributors who were obligated to make payments to our Group under relevant distribution agreements, their sub-distributors would sometimes make payment directly to our Group on the distributors’ behalf to offset the amounts they owe to the relevant distributors; and
- (iii) *Requests during ordinary course of business for convenience*: (a) during periodic site visits for future order demand and current inventory inspection to distributors, our employees would discuss with distributors and assist with order placements needed through our Group’s electronic system on site, while certain of our Group’s distributors made payments to our Group via cash, Weixin or Alipay to the employees of our Group for convenience; and (b) when serving group purchase customers in the ordinary course of business, certain of our Group’s employees were requested by the customers to use Weixin and Alipay accounts for settlement as it is more convenient.

BUSINESS

Implications Relating to Third-party Settlement Arrangement

Our Directors believe that the Third-party Settlement Arrangement existed during the Track Record Period, to the best of our knowledge, has been recorded completely and accurately in our accounting books and records in all material respects and the Group has certain measures to manage this arrangement as following:

- (i) *Prevention of fraud or money laundering*: to prevent fraud or money laundering activities, our Group implemented several know-your-customer procedures to have a comprehensive understanding of our distributors and suppliers. Further, our Group also conducted periodic business meetings with our distributors and suppliers to understand the nature of their business and business model. Based on above, the Company has no grounds, to believe that the distributors and suppliers are involved in fraud or anti-money laundering, nor would the Company has reason to believe that the relevant settlement involves proceeds or gains from fraud or anti-money laundering.
- (ii) *Genuine underlying transactions*: in order to ensure the Third-party Settlement Arrangements are supported by genuine transactions, for payments received from the designated third parties of distributors, the distributors are required to submit the payer account and payment information to our Group after completion of the order and payment. The financial staff of our Group were allowed to record the fund flows only when the information submitted by the distributors is consistent with the order. Additionally, for payments made to the designated third parties of suppliers during the Track Record Period, our Group would only make payment to such designated third parties when the relevant suppliers requested to settle through a third-party account with a delegation letter specifying, among others, (a) their relationship with such designated third parties, (b) relevant transaction information, and (c) payment account information;
- (iii) *Confirmation from distributors, suppliers and their designated third parties*: our Group communicated with distributors, suppliers and their designated third-party payers or collectors involved in the Third-party Settlement Arrangement in 2020, 2021 and the four months ended April 30, 2022 and has obtained confirmations from substantially all of them that, (a) all settlements with our Group were supported by genuine transactions; (b) the settlement amounts were consistent with the amounts incurred under the relevant transactions; (c) there were no commercial bribery, money laundering, tax evasion or existing or potential disputes with our Group associated with the Third-party Settlement Arrangement; and (d) each of them has never and will not claim any interests as to any transaction payment to or from our Group through the Third-party Settlement Arrangement, and any risk associated with the Third-party Settlement Arrangement will be borne by the distributors, suppliers and their designated third parties instead of our Group.

As advised by our PRC Legal Advisor, (i) the Third-party Settlement Arrangement is not in breach of mandatory requirements of applicable laws or regulations in China; (ii) as to distributors, suppliers and their designated third parties who have provided duly signed confirmation letters mentioned above, the risks are remote for our Group to be found obligated to return funds to the distributors, suppliers or their designated

BUSINESS

third parties, and/or their respective liquidators under the Third-party Settlement Arrangement; (iii) taking into consideration the compliance letters issued by the relevant local branches of PBOC and the facts mentioned above, the risk of money laundering related to the Third-party Settlement Arrangement is remote; and (iv) taking into consideration the compliance letters issued by, the interviews with the relevant tax authorities and the cessation of the Third-party Settlement Arrangement as mentioned above, the risk of our Group being subject to administrative penalties in violation of laws and regulations related to tax evasion under the Third-party Settlement Arrangement is remote.

Based on the foregoing, our Directors confirm that, (i) during the Track Record Period, the relevant payments were based on bona fide underlying transactions and valid contracts, and (ii) the risk of committing crimes, such as fraud, money laundering crime or commercial bribery is remote. Our Directors consider that the use of the Third-party Settlement Arrangement did not have material adverse impact on our Group.

Enhanced Internal Control Measures

Transactions involving the Third-party Settlement Arrangement may negatively affect the integrity of our financial information and our normal business operations. Furthermore, misconducts involved during the settlement, such as embezzlement, fraud or other illegal activities, may significantly harm our reputation and brand image. For further information, see “Risk Factors – Risks relating to our business and industry – We are subject to various risks relating to third-party settlements and use of personal accounts.” During the Track Record Period, our Group adopted enhanced internal control measures to safeguard our interest against risks associated with the Third-party Settlement Arrangement, including but not limited to the following:

- (i) in our agreements with distributors and suppliers since April 2022, bank account information of each distributor or supplier has been set out with the assurance that such information is consistent with the business licenses of the relevant distributors or suppliers;
- (ii) all distributors are required to submit its frequently used payment account information to our Group before any payment is made, and our Group will closely monitor any change of payment account information to identify any Third-party Settlement Arrangement;
- (iii) for payments made to any counterparties, financial staff of our Group will check their account information before making any payments against information in the underlying contracts, the payments would only be made when the name of account owner and the contracting party are consistent;
- (iv) for actual controllers of distributors and suppliers in the form of sole proprietorships who wish to settle relevant payments with our Group under the Third-party Payment Arrangements, they are required to complete application procedures according to our Group’s policy before making any payments to our Group;
- (v) for distributors or suppliers who are unable to directly settle payments with our Group immediately, they will be required to, (a) communicate relevant information to our Group, including, among others, the identity of the relevant designated third parties; (b) obtain prior

BUSINESS

written approval on a case-by-case basis from our responsible persons; and (c) provide our Group with a Designation Letter. In the Designation Letter, it is specified that the relevant distributors or suppliers delegate their payment obligation or grant rights for payments from Company under the terms of the original agreement with our Group to their respective designated third parties, which undertake to pay or receive the transaction amount directly to or from our Group under the same terms. It is further specified that, (a) our Group shall settle with the designated third parties as if it were settled with the relevant distributors or suppliers, (b) the third party payment delegation shall not discharge the payment obligation of the distributors or supplier, (c) our Group may demand payment from, and pursue legal action against, the distributors if the respective third-party payer fails to pay accordingly, and (d) the suppliers may not demand payment from, and pursue legal action against, our Group if our Group has completed the payment to the designated third parties;

- (vi) before accepting any third-party settlement, information of the designated third party such as identity cards and relationship proofs shall be provided by the distributors and suppliers and our Group will verify the information against the record in our system to ensure that it was settled through the relevant designated third parties' account as provided by the distributors and suppliers;
- (vii) our employees are required to reject and/or return all payments made by third-party payers and payment requests from third-party collectors that failed to satisfy the above-mentioned requirements;
- (viii) our employees are required to notify the above policies and measures to all the distributors, suppliers and individual customers and not to make payment to our Group on behalf of any of the distributors, suppliers or individual customers; and
- (ix) we manage our Group's bank accounts as well as our Group's other accounts used for transactions, such as Weixin and Alipay accounts, in accordance with the principle of segregation of duties. Different personnels of our finance department are assigned with different duties to verify, record, manage and settle transactions through such accounts, to ensure the accuracy of our accounting records, reduce the risks of account misuse and avoid account security risks.

Based on the follow-up review on the implementation of measures, our Directors are of the view that the above measures are effective and adequate in preventing unauthorized Third-party Settlement Arrangement and its associated risks, and our Directors will oversee the effectiveness of the aforementioned enhanced internal controls on the Third-party Settlement Arrangement in the future. Based on the independent due diligence work performed by the Joint Sponsors, and having considered the work and procedures performed by the internal control consultant to the Company, nothing material has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to disagree with the aforementioned view of our Directors in any material respect.

BUSINESS

Management of Personal Accounts

Background

In order to facilitate funds transfer in a more flexible and convenient manner, our Group began to use personal bank, Weixin and Alipay accounts (the “**Personal Accounts**”) of our employees in the daily operations before the Track Record Period, in the absence of sufficient compliance awareness. During the Track Record Period, our Group had been using a total of 11 personal bank, Weixin and Alipay accounts of six of our employees, none of whom was a connected person of our Group, with three subsidiaries involved. The use of such Personal Accounts was solely for administrative convenience and strictly restricted to business and operation purposes of our Group to settle, among others, (i) business transactions with distributors and suppliers, (ii) reimbursements for employees, (iii) cash advances to and from our Group’s related parties and (iv) reimbursement of marketing events paid to sub-distributors and individual customers.

In 2020, 2021 and 2022, funds received through the Personal Accounts were RMB587.2 million, RMB1,310.3 million and nil, representing 8.6%, 7.0% and nil, respectively, of total funds received from all accounts of our Group for the same periods, while funds paid out of the Personal Accounts were RMB523.3 million, RMB1,384.4 million and nil, representing 7.9%, 7.7% and nil, respectively, of total funds paid out of all accounts of our Group for the same periods.

As of December 31, 2021, our Group had ceased the use of all Personal Accounts and the total balance in the Personal Accounts was nil as of December 31, 2021. Subsequently in February 2022, all Personal Accounts were cancelled. Our Group considers that the cessation of use of Personal Accounts did not have, nor will have, any material adverse effect on the business, operations and financial results of our Group.

Implications relating to Personal Accounts

Notwithstanding the use of Personal Accounts during the Track Record Period, the Directors are of the view that the accounting books and records of the Company are accurate and complete in all material respects, based on the following measures adopted to ensure the integrity and completeness of our financial statements and that there were no unreported transactions by the employees throughout the Track Record Period:

- (i) *Full control of Personal Accounts*: all information and materials that were used to operate the Personal Accounts, including the relevant bank cards, accounts passwords and/or USB keys, as applicable, were required to be kept by the authorized financial staff of our Group and operated under our Group’s instructions, which ensures that all Personal Accounts are fully controlled and managed by our Group. Therefore, the six employees involved in the use of Personal Accounts were nominee account holders only, and there is no mixed use of funds in the Personal Accounts with the six employees’ personal funds. All transactions through the Personal Accounts were related to our Group only and were duly recorded by the financial staff of our Group;
- (ii) *Confirmation from account holders*: all holders of the Personal Accounts have provided written confirmations that, (a) our Group is the true beneficial owner of the funds deposited into the

BUSINESS

Personal Accounts, and the funds in the Personal Accounts are managed solely by our Group; (b) all rights and obligations associated with the Personal Accounts should be solely owned by our Group and they will not claim any interests under the Personal Accounts; (c) there had never been any personal funds of the account holders in the Personal Accounts; (d) they had never changed the passwords or account information without authorization from our Group; (e) they had never been involved in the payment and receipts of funds in the Personal Accounts unless authorization from account registered owners was required by banks; and (f) they had never used, transferred or embezzled the funds in the Personal Accounts;

- (iii) *Monitoring by financial staff:* To ensure the integrity and completeness of our financial statements, our Group has designated financial staff to be responsible for monitoring and keeping record of the fund flows on the Personal Accounts on a monthly basis, to ensure that (a) all funds in the Personal Accounts are only used for the business and operations of our Group, (b) no co-mingling of the funds in the Personal Accounts with the account holders' personal funds, and (c) appropriate accounting entries were made in our Group's accounting books and records. The financial staff were also responsible for reviewing and approving the accounting entries as well as conducting frequent reconciliation on the statements of the Personal Accounts with our Group's management accounts to ensure that the transaction records in the Personal Accounts have been appropriately recorded as accounting entries throughout the Track Record Period. Such accounting and record keeping procedures in respect of the management of the Personal Accounts were implemented in the same manner and subject to the same internal policy as that for the corporate accounts of our Group throughout the Track Record Period;
- (iv) *Verification of transactions with distributors and suppliers:* in respect of our Group's transactions with our distributors and suppliers via Personal Accounts, our Group has conducted monthly reconciliation and check among our sales ledgers, agreements with counterparties, purchase orders, delivery notes, invoices, accounting entries and records in the Personal Accounts, to ensure records in the Personal Accounts in trade nature were reflected in our Group's accounting books and records;
- (v) *Management of electronic ordering system:* to ensure there is no unreported transactions between employees and distributors, throughout the Track Record Period, distributors were required to place orders on the electronic ordering system of our Group. After the orders were placed, financial staff would automatically receive all transaction information and start to check (a) whether prices for each of the baijiu products are in line with our pricing policy, and (b) whether payments had been received in the Personal Accounts or the corporate accounts. The financial staff would only confirm stock delivery when prices set out in the orders from distributors complied with our internal pricing policy and all payments had been received. Therefore, (a) distributors were not able to place orders with individual employees without going through our electronic ordering system and accounting department, and (b) if any payments were remitted to accounts other than the Personal Accounts or the corporate accounts of our Group, no baijiu products will be delivered to distributors. Throughout the Track Record Period, we were not aware of any claims from distributors requesting stock delivery without receiving relevant payments in the Personal Accounts or the corporate accounts.

BUSINESS

- (vi) *Verification of funds transferred in relation to employees:* in respect of the funds transferred in relation to employees reimbursements via Personal Accounts, our Group has conducted periodic reconciliation and check among our internal policies, reimbursement invoices submitted and bank/account statements, to ensure payments made or received by the Personal Accounts are in line with our Group’s internal policies and duly recorded;
- (vii) *Verification of reimbursement of marketing events:* in respect of reimbursement of marketing events provided to sub-distributors and individual customers via Personal Accounts, our Group has conducted periodic reconciliation and check among relevant agreements, supporting documents provided for payments in connection with reimbursement of marketing events and bank/account statements, to ensure reimbursement of marketing events provided were duly reflected in our Group’s accounting books and records;
- (viii) *Monitoring of cash advances:* in respect of our Group’s cash advances with our related parties via Personal Accounts, our Group has conducted periodic reconciliation and check between our accounting entries, underlying agreements, payment and receipt records in the Personal Accounts, to ensure records in the Personal Accounts in non-trade nature were duly reflected in our Group’s accounting books and records. All cash advances via Personal Accounts had been settled as of December 31, 2021, and cash advances to or from related parties had ceased since then.

As advised by our PRC Legal Advisor, based on the facts mentioned above and the compliance letters and confirmation through interview from relevant local branches of PBOC, (i) the risks that our Group will be imposed any fines or penalties by the relevant local branches of PBOC in the future based on applicable laws and regulations with respect to the use of the Personal Accounts are remote; and (ii) the risks that our Group will be imposed any fines or penalties by the relevant government authorities in the future based on any anti-money laundering laws and regulations with respect to the use of the Personal Accounts are remote. As advised by our PRC Legal Advisor, the potential maximum penalties for us with respect to the use of the Personal Accounts are approximately RMB90,000. Our Directors consider that the use of the Personal Accounts did not have material adverse impact on our Group.

Enhanced Internal Control Measures

The use of Personal Accounts may expose our Group to several risks without proper internal control in place. For further information, see “Risk Factors – Risks relating to our business and industry – We are subject to various risks relating to third-party settlements and use of personal accounts.” During the Track Record Period, our Group took the following enhanced measures in accordance with our internal control policies to ensure that the use of Personal Accounts has been completely ceased and would not have a material adverse effect on our business, results of operations or financial condition:

- (i) internal policy was adopted and announced within our Group that all payment of funds must be made through our Group’s corporate accounts and no Personal Accounts could be opened or used for any corporate purpose;
- (ii) financial staff of our Group will review all bank statements of the corporate accounts to check on abnormal or unauthorized transfer of funds on a weekly basis, and in case of any indication of

BUSINESS

use of Personal Accounts for the receipt or payment of funds by any members of our Group, our finance managers will be alerted immediately;

- (iii) our Group has required that all contracts entered into with distributors shall set forth explicitly the designated corporate accounts of our Group used for receipt of funds; and
- (iv) according to the separation of ownership and control policy implemented by our Group to prevent the unauthorized use of Personal Accounts, the nominee account holders of the Personal Accounts were not able to change the access information without alerting our Group.

Based on the follow-up review on the implementation of measures, our Directors are of the view that the above measures are effective and adequate in preventing unauthorized use of Personal Accounts and its associated risks. Based on the independent due diligence work performed by the Joint Sponsors, and having considered the work and procedures performed by the internal control consultant to the Company, nothing material has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to cast doubt on the aforementioned view of our Directors in any material respect.

Views of the Directors and the Joint Sponsors

Taking into account (i) the facts and circumstances surrounding the historical non-compliance incidents mentioned in this section, the Third-party Settlement Arrangement and the Use of Personal Accounts; (ii) the fact that none of our Directors was directly involved in the aforementioned incidents; (iii) the confirmations from the competent governmental authorities; (iv) the enhanced internal control measures that we have implemented; and (v) the training sessions attended by our Directors in relation to their obligations and duties as directors of a [REDACTED] company from a Hong Kong law perspective, our Directors are of the view that the historical non-compliance incidents disclosed in this section, the Third-party Settlement Arrangement and the Use of Personal Accounts would not give rise to the concerns on the ability of our Directors to operate our Group in a legally compliant manner. Based on the independent due diligence work performed by the Joint Sponsors, nothing material has come to the attention of the Joint Sponsors that would cause the Joint Sponsors to disagree with the aforementioned view of our Directors in any material respect.