
RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

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

For details of Mr. Wu’s biography, see “Directors and Senior Management”. Apart from our Group and in addition to other industries, Mr. Wu is also engaged with other liquor-related businesses, see “– Liquor-related Businesses of Our Controlling Shareholder” in this section.

OUR BUSINESSES

Our Group primarily operates our baijiu business under the brands of *Zhen Jiu*, *Li Du*, *Xiang Jiao* and *Kai Kou Xiao*. For details of our baijiu products, see “Business”.

LIQUOR-RELATED BUSINESSES OF OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, apart from our Group, Mr. Wu also controls other companies engaging in liquor production and distribution, details of which are set forth below.

Liquor Distribution

Vats Liquor is a company listed on the Shenzhen Stock Exchange (stock code: 300755.SZ) primarily engaging in the distribution of liquor products, including but not limited to baijiu, red wine and imported liquors. The Directors are of the view that the businesses between the Group and Vats Liquor are clearly delineated and there is no competition between the Group and Vats Liquor considering (a) they are engaged in fundamental different business model as Vats Liquor mainly engages in liquor trading distribution while we mainly engage in baijiu production and sales, (b) Vats Liquor mainly sells deluxe products such as *Moutai* (茅台) and *Wuliangye* (五糧液) with no existing or foreseeable distribution of our products and we mainly sell premium baijiu products through our own distributors, and (c) Vats Liquor is positioned as a liquor distributor brand, while we are mainly positioned as a baijiu producer, focusing on building our own baijiu brands.

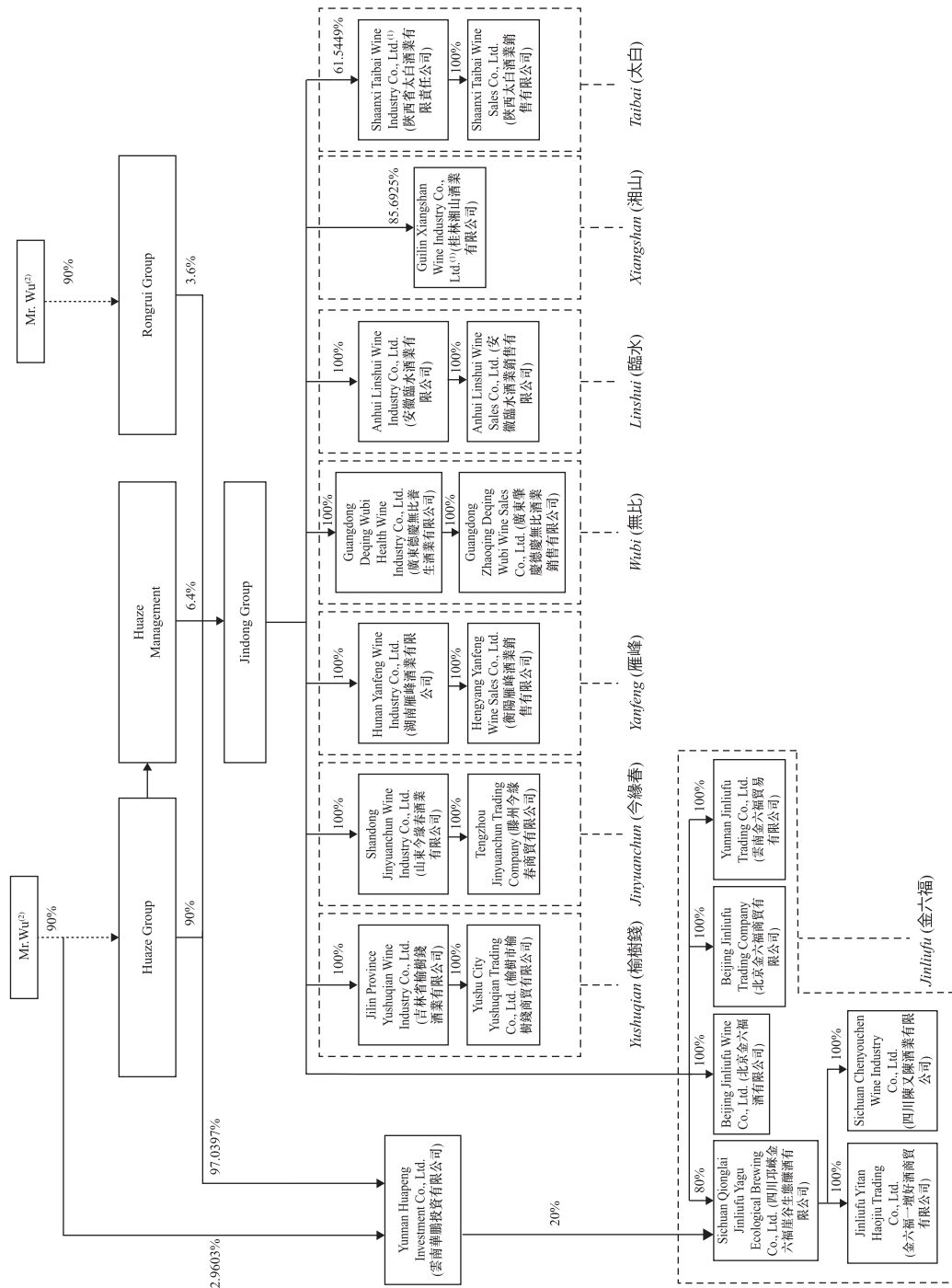
Baijiu Production and Sale (Excluded Baijiu Business)

Mr. Wu indirectly controls the following companies which are engaged in the production and sale of baijiu products including *Jinliufu* (金六福), *Yushuqian* (榆樹錢), *Jinyuanchun* (今緣春), *Yanfeng* (雁峰), *Wubi* (無比), *Linshui* (臨水), *Xiangshan* (湘山) and *Taibai* (太白) (as and when controlled by Mr. Wu, collectively, the “**Excluded Baijiu Business**”). The Excluded Baijiu Business are primarily local baijiu companies at city level mainly focusing on light-tasted (輕口味) products targeting mid-range and low-end market. Other than the Group and the Excluded Baijiu Business, the Controlling Shareholders do not own or control any other baijiu business.

As advised by the PRC Legal Advisor, the Directors confirmed that the Excluded Baijiu Business was not subject to any material non-compliance, claim or litigation during the Track Record Period and up to the Latest Practicable Date.

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Please refer to the chart below for the shareholder structure of the Excluded Baijiu Business as of the Latest Practicable Date:



Notes:

- (1) the remaining shares of which are held by an Independent Third Party.
- (2) Huaze Group and Rongrui Group are held by Mr. Wu as to 90% and Mr. Yan Tao as to 10%, respectively.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

DELINEATION BETWEEN OUR GROUP AND THE EXCLUDED BAIJIU BUSINESS

Having considered the following factors, as well as the proposed business and corporate governance measures to be implemented upon [REDACTED] following the execution of the Deed of Non-competition (including the undertakings therein with respect to the Excluded Baijiu Business), the Directors of the Company are of the view that the competition between the Group and the Excluded Baijiu Business is not material and any conflict of interests can be effectively managed:

Price Range

We set forth below revenue derived from baijiu products in different price ranges provided by the Group and the Excluded Baijiu Business for the Track Record Period:

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	2020						2021						2022					
	The Group		The Excluded Business in Baijtu Business		% of revenue from the Excluded Business in the Group from the same price range		The Group		The Excluded Business in Baijtu Business		% of revenue from the Excluded Business in the Group from the same price range		The Group		The Excluded Business in Baijtu Business		% of revenue from the Excluded Business in the Group from the same price range	
	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%
Deluxe	378.4	15.77%	0.4	0.05%	0.11%	0.02%	908.1	17.80%	0.8	0.06%	0.09%	1,438.7	24.57%	0.4	0.03%	0.03%	0.01%	
Premium	862.7	35.96%	5.5	0.65%	0.63%	0.23%	1,933.6	37.90%	12.0	0.94%	0.62%	2,388.1	40.78%	10.2	0.76%	0.43%	0.17%	
Mid-Range	1,002.5	41.79%	238.5	28.37%	23.80%	9.94%	2,149.2	42.13%	347.8	27.38%	16.18%	1,931.1	32.98%	289.0	21.44%	14.97%	4.94%	
Low-end	155.3	6.48%	596.6	70.93%	384.07%	24.87%	110.7	2.17%	909.6	71.61%	821.48%	98.0	1.67%	1,048.2	77.77%	1069.00%	17.90%	
Total	2,398.9	100.00%	841.0	100.00%	N/A	35.06%	5,101.6	100.00%	1,270.0	100.00%	N/A	5,855.9	100.00%	1,347.8	100.00%	N/A	23.02%	

Note: Financial data of the Excluded Baijtu Business are based on their respective management accounts prepared under PRC Generally Accepted Accounting Principles instead of IFRS.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

As elaborated in the subsection headed “ – Deed of Non-competition – Undertaking with respect to the Products and Revenue of the Excluded Baijiu Business” in this section, upon [REDACTED], the Excluded Baijiu Business will not engage in the production or sale of any baijiu products priced at premium or above.

While revenue derived from mid-range baijiu products in the Excluded Baijiu Business accounted for 14.97% and 4.94% of the revenue derived from mid-range baijiu products in the Group and total revenue of the Group, respectively, for the year ended December 31, 2022, the Excluded Baijiu Business will cease to produce any baijiu products priced at mid-range upon [REDACTED] and may only sell mid-range baijiu products produced before the cessation of such production, subject to the overall Revenue Targets as described in the subsection headed “ – Deed of Non-competition – Undertaking with respect to the Products and Revenue of the Excluded Baijiu Business” in this section. Further, the Excluded Baijiu Business will completely cease the sale of mid-range baijiu products by the end of April 2024.

Considering low-end baijiu products only accounted for 1.67% in the revenue of the Group for the year ended December 31, 2022, they are not within the business priority or strategic direction of the development of the Group.

Therefore, there will not be material overlap of baijiu products sold by the Group and the Excluded Baijiu Business after [REDACTED] in terms of pricing, which would effectively limit any competition between the Group and the Excluded Baijiu Business.

Market Positioning and Profitability

As elaborated in the section headed “Business – Our Brands”, our main brands are premium baijiu brands (excluding *Kai Kou Xiao*), whereas the Excluded Baijiu Business primarily provide mid-range and low-end baijiu products and operate mass market baijiu brands. According to Frost & Sullivan, as of December 31, 2021, there are over 950 baijiu companies with sales revenue of more than RMB20 million in the market. In terms of revenue in 2021, except the two largest market players, none of the market players has a market share of more than 5% and except the top 5 market players, none of the market players has a market share of more than 3%. Therefore, operating in such a highly fragmented market, the chance of direct competition between the Group and the Excluded Baijiu Business is remote due to different marketing positioning.

In addition, we have achieved a significant higher net profit and net profit margin during the Track Record Period compared with the Excluded Baijiu Business as further demonstrated below. Such differences in market positioning and profitability usually lead to different perception from customers, business development and strategic planning with respects to brands under the Group and the Excluded Baijiu Business.

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We set forth below the key financial information⁽¹⁾ of the Excluded Baijiu Business during the Track Record Period:

	Revenue			Gross Profit ⁽²⁾			Net Profit/Loss			Gross Profit Margin ⁽²⁾			Net Profit Margin		
	RMB'000			RMB'000			RMB'000			%			%		
	For the year ended December 31			For the year ended December 31			For the year ended December 31			For the year ended December 31			For the year ended December 31		
	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
Jinliujiu (金六福)	503,270	792,105	848,876	262,690	536,065	396,935	13,870	107,610	43,612	52.2%	67.7%	46.8%	2.8%	13.6%	5.1%
Yushuqian (榆樹錢)	19,740	39,396	41,786	8,120	18,246	23,163	(4,710)	(3,400)	(11,882)	41.1%	46.3%	55.4%	N/M	N/M	N/M
Jinyuanchun (今緣春)	114,150	153,740	177,483	59,480	85,450	107,111	(1,290)	1,420	13,396	52.1%	55.6%	60.3%	N/M	0.9%	7.5%
Yangfeng (雁峰)	21,530	26,620	30,765	16,280	19,330	22,105	2,800	(1,070)	2,980	75.6%	72.6%	71.8%	13.0%	N/M	9.7%
Wubi (無比)	11,827	15,922	14,602	4,470	6,329	7,618	(1,403)	(1,910)	(3,610)	37.8%	39.8%	52.2%	N/M	N/M	N/M
Linshui (臨水)	88,274	110,698	125,419	56,023	75,594	87,467	3,973	(6,835)	12,049	63.5%	68.3%	69.7%	4.5%	N/M	9.6%
Xiangshan (湘山)	34,370	64,940	46,937	16,010	23,930	19,009	(9,730)	(22,760)	(4,923)	46.6%	36.8%	40.5%	N/M	N/M	N/M
Taibai (太白)	47,835	66,660	61,951	16,223	33,361	32,276	(36,655)	(48,759)	(31,309)	33.9%	50.0%	52.1%	N/M	N/M	N/M
The Excluded Baijiu Business in total	840,996	1,270,081	1,347,819	439,296	798,305	695,684	(33,146)	24,296	20,313	52.2%	62.9%	51.6%	N/M	1.9%	1.5%

Notes:

- (1) Financial data of the Excluded Baijiu Business are based on their respective management accounts prepared under PRC Generally Accepted Accounting Principles instead of IFRS.
- (2) Assuming IFRS were adopted, the gross profit for the Excluded Baijiu Business would be RMB302,352,000, RMB566,347,000 and RMB452,998,000, respectively, and its gross profit margin would be 36.0%, 44.6% and 33.6%, respectively, for the years ended December 31, 2020, 2021 and 2022. Such gap between gross profit margin of the Excluded Baijiu Business under PRC Generally Accepted Accounting Principals and IFRS was due to different treatment of tax and surcharges.

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As demonstrated above, there were significant differences in the net profit margin recorded by the Group and the Excluded Baijiu Business during the Track Record Period. For the years ended December 31, 2020, 2021 and 2022, five, six and four brands under the Excluded Baijiu Business recorded net loss, respectively. Collectively, the Excluded Baijiu Business recorded net loss for the year ended December 31, 2020 and achieved a profit margin of 1.9% and 1.5% only for the year ended December 31, 2021 and 2022, respectively. Comparatively, our Group recorded adjusted net profit margin (non-IFRS measure) amounted to 21.7%, 21.0% and 20.4% for the years ended December 31, 2020, 2021 and 2022, respectively. The significant differences in the net profit margin recorded by the Group and the Excluded Baijiu Business were primarily attributable to (i) the Group has much higher gross margins than the Excluded Baijiu Business as the Group focuses on premium baijiu products while the Excluded Baijiu Business focuses on low-end products, and (ii) the Excluded Baijiu Business has considerable amount of expense required for baijiu business’s daily operation while the revenue and business scale of the Excluded Baijiu Business are smaller than the Group.

Types of Aroma

According to Frost & Sullivan, alcoholic drinks are recreational beverage and the extent of “substitutability” of such products are primarily determined by the distinctive tastes and consumer experience offered by such products. Each of the aroma types has its specific distinctions (including production techniques, fermentation time and raw materials), which are not similar with each other. Such distinctive aroma profile results in distinctive tastes, consumer experience and products, which are not-substitutable with each other. In addition, consumers in China have different preferences for baijiu taste, in particular preferences for heavy-tasted or light-tasted baijiu, and most of them have developed a preference for a specific aroma type since each of the aroma profiles offers a unique taste experience. For those consumers who have developed a preference for a specific aroma type, baijiu products with different aroma profiles are not substitutable for one another.

We set forth types of aroma for each brands under the Excluded Baijiu Business in the subsection headed “– Summary of Business Delineation between the Group and the Excluded Baijiu Business” and breakdown in terms of revenue by aroma types under the Excluded Baijiu Business for the Track Record Period as the following:

	For the year ended December 31 (RMB in million, except %)					
	2020	%	2021	%	2022	%
Strong Aroma	612.3	72.80%	945.5	74.44%	1,059.8	78.63%
Sauce Aroma	5.1	0.61%	20.9	1.64%	1.4	0.10%
Mixed Aroma	133.0	15.81%	162.8	12.82%	165.3	12.26%
Rice Aroma	32.1	3.82%	61.4	4.84%	45.6	3.39%
Feng Aroma	47.8	5.69%	66.7	5.25%	62.0	4.60%
Medicine Aroma	10.7	1.27%	12.8	1.01%	13.8	1.02%
Total	841.0	100.00%	1,270.1	100.00%	1,347.9	100.00%

As elaborated in the subsection headed “– Deed of Non-competition”, the Controlling Shareholders undertake that they shall and procure that its close associates (including the Excluded Baijiu Business, but other than the Group) not to engage in production and sale of any sauce aroma baijiu and mixed aroma baijiu.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Distribution Channel and Geographic Region

Both of the Group and the Excluded Baijiu Business sell their products primarily through distributors, from which the majority of the revenue of each of the Group and the Excluded Baijiu Business were generated during the Track Record Period. As of December 31, 2020, 2021 and 2022, there are 18, 23 and 20 distribution partners who provided distribution services to both the Group and the Excluded Baijiu Business, respectively, which contributed to around 1.6%, 1.0% and 0.7% in the total revenue of the Group, respectively. Therefore, the overlap of distribution channels between the Group and the Excluded Baijiu Business is extremely insignificant. To effectively manage any potential conflict of interests with respect to distribution channels between the Group and the Excluded Baijiu Business, the Company will (i) require all existing distribution partners to declare their business relationship with the Excluded Baijiu Business annually, and (ii) not cooperate with new distribution partners providing distribution services to the Excluded Baijiu Business, after [REDACTED].

Our Group has a nationwide distribution network while the Excluded Baijiu Business (except for *Jinliufu*) mainly produce baijiu with a focus on regional markets and distribute products in specific cities. For example, *Linshui* and *Xiangshan* mainly focus on mid-range and below market distributed in a few cities in Anhui Province and Guangxi Province, respectively, with no national distribution.

While *Jinliufu* distributes its products nationwide, the key distribution regions (i.e. top five regions) in terms of the revenue contribution to our Group and *Jinliufu* for the year ended December 31, 2022 only overlap in Henan Province and Shandong Province. For the year ended December 31, 2022, Henan Province and Shandong Province contributed 12.5% and 7.4% to the revenue of the Group, respectively. Meanwhile, Henan Province and Shandong Province contributed 10.0% and 15.8% to the revenue of *Jinliufu* during such period, respectively. As such, although there is a limited overlap in terms of geographic region, taking into account the delineation between *Jinliufu* and our Group in terms of price range, types of aroma and each of *Jinliufu* and our Group does not have a market share exceeding 3% in 2021 in Henan Province or Shandong Province, respectively, such an overlap does not constitute material and/or substantive competition between our Group and *Jinliufu*.

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Summary of the Business Delineation between the Group and the Excluded Baijiu Business

The following diagram illustrates that there is no substantive and/or material competition between the baijiu products of the Group and the Excluded Baijiu Business, directly or indirectly, regardless of brand positioning, business scale, price ranges, aroma types or geographic focuses:

Brand	Brand Positioning	Business Scale		Price Range		Type of Aroma		Distribution Region
		Revenue for the Year Ended December 31, 2022 (RMB in million)	Revenue of the Group/Excluded Baijiu Business for the Year Ended December 31, 2022 (RMB in million)	Low-end	Mid-Range	Main Aroma Type ⁽¹⁾	Supplementary Aroma Type	
The Group								
Zhen Jiu (珍酒)	Premium	3,823	–	1,209	2,614	Sauce Aroma	–	Nationwide
Li Du (李渡)	Premium	887	7	200	680	Heavy-tasted Mixed Aroma	–	Nationwide
Xiang Jiao (湘窖)	Premium	713	–	181	532	Sauce Aroma, Heavy-tasted Mixed Aroma and Strong Aroma ⁽³⁾	–	Hunan Province
Kai Kou Xiao (开口笑)	Mass Market	339	–	339	–	Strong Aroma ⁽³⁾ and Heavy-tasted Mixed Aroma	Sauce Aroma	Hunan Province
Other Brands	Mass Market	94	90	3	1	–	–	–
Total		5,856	97	1,932	3,827			
The Excluded Baijiu Business								
Jinliufu (金六两)	Mass Market	849	747	102	–	Strong Aroma	–	Nationwide ⁽⁴⁾
Yushuqian (榆树钱)	Mass Market	42	15	23	4	Strong Aroma	–	Jilin Province
Jinyuanchun (今缘春)	Mass Market	177	160	17	–	Strong Aroma	–	Shandong Province
Yanfeng (雁峰)	Mass Market	31	4	26	1	Strong Aroma	Sauce Aroma	Hengyang City of Hunan Province
Wubi (無比)	Mass Market	15	15	–	–	Medicine Aroma	–	Chenzhou City of Hunan Province and Zhaoqing City of Guangdong Province
Linshui (临水)	Mass Market	125	8	113	4	Mixed Aroma	–	Anhui Province
Xiangshan (湘山)	Mass Market	47	40	6	1	Rice Aroma	–	Guangxi Province
Taihai (太海)	Mass Market	62	59	2	1	Feng Aroma	–	Shaanxi Province
Total		1,348	1,048	289	11			

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Notes:

1. Representing aroma type(s) each of which contributed to more than 10% in the total revenue of the brands for the year ended December 31, 2022.
2. Representing provinces or cities contributing to more than 90% individually or collectively in the revenue of a brand for the year ended December 31, 2022. A brand is considered as distributed nationwide if distributed in over 10 provinces for the year ended December 31, 2022.
3. Strong aroma contributed to 9.4% in the revenue of the Group for the year ended December 31, 2022.
4. The distribution overlap of *Jmlitifu* is considered limited for the reasons set out in the section headed “Relationship with the Controlling Shareholders – Delineation Between our Group and the Excluded Baijiu Business – Distribution Channel and Geographic Region” in the Document.

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Corporate Governance Measures

With respect to the Excluded Baijiu Business, each of the Controlling Shareholders will grant the Company the Right of First Refusal (as defined below) and Call Option (as defined below) as well as provide the Company with undertakings in terms of production and sales of products and Revenue Targets of the Excluded Baijiu Business following the execution of the Deed of Non-competition upon [REDACTED]. Further, review and approval from the independent non-executive Directors and independent Shareholders (as applicable) will be involved to ensure the effective enforcement of the Deed of Non-competition. In addition to other corporate governance measures further illustrated in the subsection headed “- Corporate Governance Measures” below, the Company is of the view that any conflicts of interest between the Group and the Excluded Baijiu Business will be effectively managed.

REASONS FOR THE EXCLUSION OF THE EXCLUDED BAIJIU BUSINESS FROM OUR GROUP

Having considered, among others, the following reasons, the Company is of the view that it is not in the best interest of our Group or its Shareholders to acquire the Excluded Baijiu Business from Mr. Wu at this stage:

- *Zhen Jiu, Li Du, Xiang Jiao* are considered as premium baijiu brands with more than 60% revenue for each of these brands derived from baijiu products priced at premium or above for the year ended December 31, 2022. However, during the same period, more than 70% revenue of the Excluded Baijiu Business is derived from baijiu products priced at low-end. As there is clear differentiation in pricing and positioning as well as targeted consuming scenarios for premium baijiu brands and low-end brands, it is necessary to manage with significantly varied marketing efforts and business strategy, which therefore lead to our management and operation of the three premium baijiu brands as a whole, and low-end baijiu products are not within the business priority or strategic direction of the development of the Group;
- while *Kai Kou Xiao* mainly provides baijiu products priced at mid-range, it has been operated and managed together with *Xiang Jiao* under Hunan Xiangjiao for years, the major operating entity of *Xiang Jiao*, and with a generally commensurate growth profile as the Group during the Track Record Period. Thus, *Kai Kou Xiao* was part of our Group together with *Xiang Jiao*;
- as illustrated above, there were significant differences in the net profit margin recorded by the Group and the Excluded Baijiu Business during the Track Record Period. For the years ended December 31, 2022, the Excluded Baijiu Business achieved a profit margin of 1.5% while our Group recorded adjusted net profit margin (non-IFRS measure) amounted to 20.4%. It demonstrates our significant difference with the Excluded Baijiu Business in terms of profitability, which requires different development strategy and risk management;
- the Excluded Baijiu Business focuses on different types of aroma from our Group, in particular, we generated a majority of revenue from sauce aroma for each of the three years ended December 31, 2022 while only minimal revenue were generated from sauce aroma in the Excluded Baijiu Business. Different manufacturing standards and raw materials management is

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required for products with different types of aroma. Therefore, our investment on manufacture facilities and supply chain management are much higher than the Excluded Baijiu Business; and

- the Excluded Baijiu Business mainly distributes baijiu products in the regional markets while we distribute baijiu products nationwide. As a result, we adopt national distribution strategies whereas the Excluded Baijiu Business focuses on regional distribution network.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates (other than our Group) after [REDACTED] for the following reasons:

Management Independence

Our Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Wu, Mr. Yan Tao, Ms. Zhu Lin, Mr. Luo Yonghong and Mr. Ng are executive Directors and/or senior managements of our Group. Except Mr. Wu and Mr. Yan Tao, no directors or members of the senior management of our Group will take any roles in our Controlling Shareholders and their close associates (excluding the Group) upon [REDACTED]. Our Directors are of the view that our Group is capable of managing our business independently from our Controlling Shareholders and their respective close associates after the [REDACTED], based on the following:

- (i) among all our executive Directors and senior management, Ms. Zhu Lin, Mr. Luo Yonghong and Mr. Ng (three out of the five executive Directors) will take no roles in any companies in any of our Controlling Shareholders and their close associates (excluding our Group) upon [REDACTED]. In addition, seven out of nine Directors of the Company will have no roles within any companies controlled by Mr. Wu (excluding the Group) upon [REDACTED];
- (ii) none of our Directors, nor senior management will take any executive roles in any of our Controlling Shareholders and their close associates (excluding the Group) upon [REDACTED];
- (iii) as of the Latest Practicable Date, there are no overlapping directors, except Mr. Wu, and senior management between the Group and the Excluded Baijiu Business;
- (iv) Mr. Sun Zheng, our non-executive Director, is independent from our Controlling Shareholders and their close associates (excluding the Group) and will contribute in a non-executive capacity at the board level;
- (v) we have three independent non-executive Directors, representing one-third of the Board. The independent non-executive Directors will represent an element of independence at the board level and will, among other matters, review and monitor any connected transactions entered into between our Group and our Controlling Shareholders and their close associates from time to time, to protect the interests of our Company and the Shareholders as a whole;

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- (vi) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and any of the Directors or their respective close associates, the interested Director(s) shall abstain from participation of the relevant board meetings of our Company in respect of such transactions and the other Directors will vote and decide on the matter;
- (vii) each of our Directors is aware of his or her fiduciary duties as a Director, that require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interests; and
- (viii) we have adopted a series of corporate governance measures to manage potential conflicts of interest, if any, between our Group and our Controlling Shareholders as well as their close associates which would support our independent management in accordance with our Articles, relevant corporate governance policies and the Listing Rules as well as other applicable rules, laws and regulations. Please see the paragraph headed “– Corporate Governance Measures” in this section below for further information.

Operational Independence

We do not rely on the Controlling Shareholders and their close associates for our business development, staffing, logistics, administration, finance, internal audit, manufacturing, sales and marketing, or company secretarial functions. We have our own departments specializing in these respective areas which have been in operation and are expected to continue to operate separately and independently from the Controlling Shareholders and their close associates. In addition, we have our own headcount of employees for our operations and management for human resources.

We have independent access to suppliers, distributors and consumers and an independent management team to handle the day-to-day operations with our suppliers, distributors and consumers. We are also in possession of all relevant licenses, certificates, facilities and intellectual property rights necessary to carry on and operate our principal businesses and we have sufficient operational capacity in terms of capital and employees to operate independently.

Save as disclosed in the subsection headed “– Delineation between our Group and the Excluded Baijiu Business – Distribution Channel and Geographic Region” in this section, we have no overlapping distributors (as direct customers) with the other businesses controlled by Mr. Wu. For each of the three years ended December 31, 2022, transaction amounts with overlapping suppliers between our Group and other businesses controlled by Mr. Wu providing products and services including but not limited to raw materials and advertising services accounted for approximately 8% to 9% in our total purchase during the same period. Save as disclosed in Note 27(b) to the Accountants’ Report included in Appendix I with respect to leases of an office building and a warehouse by our subsidiaries, we have not and will not lease any properties from other businesses controlled by Mr. Wu. Also, save as disclosed in the section headed “Directors and Senior Management” with respect to historical overlapping of management and the subsection headed “– Independence from our Controlling Shareholders – Management Independence” with respect to the existing management overlapping, we have not and will not share personnel, premises or

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other resources with the other businesses controlled by Mr. Wu. The historical transaction amounts (in trade nature) between the Group and other companies controlled by the Controlling Shareholders are RMB46.6 million, RMB240.4 million and RMB81.2 million for the year ended December 31, 2020, 2021 and 2022, respectively. For details, please refer to Note 27 to the Accountants’ Report included in Appendix I. As of the Latest Practicable Date, we are not expected to have any continuing connected transaction with our Controlling Shareholders or their respective associates upon and after [REDACTED].

Based on the above, our Directors believe that we are able to operate independently of the Controlling Shareholders and their close associates.

Financial Independence

As of the Latest Practicable Date, we have recorded dividends payable to Zhenjiu Holdings as further disclosed in the section headed “Financial Information – Dividends”, and all loans and advances due to or from the Controlling Shareholders or their close associates have been fully settled. All share pledges and guarantees provided by or to the Controlling Shareholders or their close associates on the borrowings of our Group have also been fully released as of the Latest Practicable Date. During the Track Record Period, we had received [REDACTED] Investments from investors independently. For details of the [REDACTED] Investments, see “History, Development and Corporate Structure”. In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third party financing.

Accordingly, we believe we are able to maintain financial independence from our Controlling Shareholders and their close associates.

Based on the above, our Directors believe that we do not place any reliance on the Controlling Shareholders or their close associates upon the [REDACTED].

RULE 8.10 OF THE LISTING RULES

Mr. Wu and Mr. Yan Tao will be interested in the Excluded Baijiu Business as to 90% and 10% respectively through Jindong Group upon [REDACTED]. For further details, please refer to the shareholding chart of the Excluded Baijiu Business in the section headed “– Liquor-related Businesses of Our Controlling Shareholder – Baijiu Production and Sale (Excluded Baijiu Business)” above. Save as disclosed above and as of the Latest Practicable Date, none of our Controlling Shareholders or Directors was engaged or had interest in any business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

DEED OF NON-COMPETITION

In order to achieve clear delineation between the Excluded Baijiu Business and our Group, and avoid any potential competition, actual or perceived, arising therefrom, each of the Controlling Shareholders [has entered] into the Deed of Non-competition with our Company, pursuant to which, the Controlling Shareholders have irrevocably and unconditionally, jointly and severally, undertaken in favor of our

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Company (for itself and on behalf of its subsidiaries) that at any time during the Relevant Period (as defined below), each of the Controlling Shareholders shall and shall procure that its close associates (other than members of our Group) not to, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on its own account or with each other or in conjunction with or on behalf of any person or company or otherwise, production and sale of any sauce aroma baijiu, mixed aroma baijiu or mid-range and above baijiu (the “**Restricted Business**”), or in any business that may compete, directly or indirectly with the Restricted Business (for the avoidance of doubt, other than their existing interests in the Excluded Baijiu Business). As of the Latest Practicable Date, companies controlled by Mr. Wu (except our Group and the Excluded Baijiu Business) mainly include (i) Jindong Group, the controlling entity of the Excluded Baijiu Business, Vats Liquor and other companies mainly involved in investment, finance, cultural and tourism, high-end manufacture, mining and energy, real estate and internet business, and (ii) Huaze Group, Huaze Management and Rongrui Group, which are mainly engaged in investment business. None of these companies currently operates or will operate the Restricted Business in the foreseeable future. In addition, the Controlling Shareholders further undertake that the Excluded Baijiu Business will only operate in their current geographic regions with limited overlapping distribution partners with our Group in the foreseeable future.

For the above purpose, the “Relevant Period” means the period commencing from the [REDACTED] and expiring on the earlier of (i) the date on which each of the Controlling Shareholders ceasing to control 30% (or such other amount as may from time to time be specified in the Takeovers Code) or more in the issued share capital of our Company, or otherwise is not regarded as a controlling shareholder of our Company under the Listing Rules; and (ii) the date on which our Shares cease to be [REDACTED] on the Stock Exchange (except for temporary trading halt or suspension of trading of the Shares on the Stock Exchange).

The aforesaid undertaking does not apply to the Controlling Shareholders’ and their close associates’ holding of or interests in, directly or indirectly, shares in any company which conducts or is engaged in, directly or indirectly, any business that may compete, directly or indirectly, with our Group, provided that: (i) such shares are [REDACTED] on a public stock exchange; and (ii) the total number of such shares held by the Controlling Shareholders and/or any of their respective close associates (including the Excluded Baijiu Business) does not amount to more than 5% of the issued shares of that class of such company in question.

New Business Opportunity

Each of the Controlling Shareholders further undertakes, if any new business opportunity in any equity investments in any new business apart from the Excluded Baijiu Business relating to the business of our Group (the “**Business Opportunity**”) is made available to any of them and/ or any of their respective close associates (other than members of our Group):

- (a) the Controlling Shareholders shall and shall procure their respective close associates (other than members of our Group) direct to our Company any such Business Opportunity by serving to us a written notice; and
- (b) such written notice shall include all information together with any documents possessed by any of the Controlling Shareholders or their close associates in respect of the Business Opportunity to enable us to evaluate the merit of the Business Opportunity and all reasonable assistance as requested by our Company to enable us to secure the Business Opportunity.

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Upon receipt of the written notice from the Controlling Shareholders, our Group will consider whether it is in the interest of our Company and our Shareholders as a whole to pursue the Business Opportunity. For the avoidance of doubt, the Controlling Shareholders and any of their respective close associates (including the Excluded Baijiu Business but excluding our Group) will not be entitled to pursue the Business Opportunity even if the Business Opportunity is declined by our Group, if our Group considers that the Business Opportunity constitutes Restricted Business.

In addition, it is further provided in the Deed of Non-competition that if there is any Business Opportunity, such Business Opportunity shall be directed to our independent non-executive Directors, who shall decide whether to pursue such Business Opportunity and if any Business Opportunity constitutes Restricted Business.

Right of first refusal

Each of the Controlling Shareholders [has granted] us a right of first refusal, as part of the Deed of Non-competition, in the event that any of the Controlling Shareholders or any of their close associates wishes to sell any interest in the Excluded Baijiu Business (the “**Opportunity for Sale**”), each of the Controlling Shareholders or any of their close associates will offer the Opportunity for Sale (at the same price as such Opportunity for Sale is offered to any third party) to us and we shall have a right of first refusal in respect of such Opportunity for Sale subject to the Exercise Conditions (as defined below) (the “**Right of First Refusal**”).

The Right of First Refusal is a right granted to us to acquire the interests in the Excluded Baijiu Business held by the Controlling Shareholders or any of their respective close associates at a time when such interests are intended to be sold to any third parties.

Decisions as to whether to exercise the Right of First Refusal shall be subject to the independent non-executive Directors and the independent Shareholders of our Company (if required) approving the acquisition. In addition, our Company should also appoint an independent financial adviser to review the terms of the acquisition of such interests and provide a letter of advice to the independent board committee and the independent shareholders of our Company (if required) (collectively, the “**Exercise Conditions**”).

The exercise of the Right of First Refusal will constitute connected transaction(s) for our Company under Chapter 14A of the Listing Rules and will be subject to the applicable requirements under the [REDACTED] Rules. In the event that our Company decides to exercise the Right of First Refusal, an announcement will be issued by our Company setting out details of such exercise in accordance with relevant requirements under the Listing Rules. In the event that our Company decides not to exercise the Right of First Refusal, an announcement will also be issued by our Company setting out the reasons for not exercising such right and the Controlling Shareholders or any of their respective close associates may proceed to sell to the third party, provided that the price may not be lower than the price which was offered to our Company.

Call option granted to the Company

Each of the Controlling Shareholders [has granted] to our Company an option (the “**Call Option**”) to acquire the whole or part of its interest in the Excluded Baijiu Business held directly or indirectly by the

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Controlling Shareholders at any time upon and after [REDACTED]. The price at which the Call Option will be exercised shall be negotiated and agreed at arm’s length between our Company and the Controlling Shareholders at the time of exercise. If the Controlling Shareholders and our Company fail to agree on the exercise price, an independent internationally recognized firm of valuers will be appointed to determine the exercise price.

Decisions as to whether to exercise the Call Option shall be subject to the independent non-executive Directors and the independent Shareholders (if required) approving the acquisition. In addition to the continuous review of its exercise, after the [REDACTED], the independent non-executive Directors will undertake an annual review as to evaluate whether the Call Option should be exercised with respect to any or all of the Excluded Baijiu Business and disclose their views in the Company’s annual reports. Further, our Company should appoint an independent financial adviser to review the terms of the acquisition of the interests in the Excluded Baijiu Business and provide a letter of advice to the independent board committee and the independent Shareholders (if required).

The exercise of the Call Option will constitute connected transaction(s) for our Company under Chapter 14A of the Listing Rules and will be subject to the applicable requirements under the Listing Rules. In the event that our Company decides to exercise the Call Option, an announcement will be issued by our Company setting out details of such exercise in accordance with relevant requirements under the Listing Rules.

Undertaking with respect to the Products and Revenue of the Excluded Baijiu Business

For products and revenue of the Excluded Baijiu Business, each of the Controlling Shareholders undertakes that:

- **Revenue Targets of the Excluded Baijiu Business:** the total revenue of the Excluded Baijiu Business, including baijiu products priced at mid-range and low-end, as a percentage in the revenue of the Group will be reduced year on year, to the level of less than **18%** for the year of **2023**, less than **15%** for the year of **2024** and less than **10%** for the year of **2025** and any given year thereafter (individually or collectively, the “**Revenue Targets**”).

To ensure continuing compliance with the Revenue Targets, the following **corporate governance measures** will be adopted:

- The Excluded Baijiu Business will provide (i) its annual business plan (including projections on production and sale amounts) before the start of each financial year commencing from 2024, and (ii) its business plan (including projections on production and sale amounts) for the rest of the year of 2023 before [REDACTED], to the Company.
- The Excluded Baijiu Business will provide the Company with quarterly updates within one month after the end of each quarter with statistics on its sale and production amounts.
- The Excluded Baijiu Business will provide the Company with its consolidated audited accounts within three months after the end of each financial year.

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- The independent non-executive Directors of the Company will review all materials provided above (with the assistance of the audit committee of the Company and any external advisers, if deemed appropriate by the independent non-executive Directors at the expense of the Company) and confirm in the annual reports that the undertakings as disclosed in the [REDACTED] document, in particular the Revenue Targets, are fully complied with. In the event that there is any indication that the Revenue Target will be exceeded for a given year during the review of the quarterly updates, the Excluded Baijiu Business will be required to provide updated business plan for the rest of the year to fulfill the Revenue Target promptly to the Company, with measures including but not limited to reducing production and/or sale amounts, as approved by the independent non-executive Directors, which is required to be strictly complied with for the rest of the year by the Excluded Baijiu Business.
- Failure to comply with the Revenue Targets in any given year will result in the Controlling Shareholders injecting any or all of their interests in the Excluded Baijiu Business (the “**Injection**”), subject to the approvals from the independent non-executive Directors and the independent shareholders (as applicable) pursuant to laws and regulations applicable to the Company (including the Listing Rules), so that the sales of the Excluded Baijiu Business (excluding entities proposed to be injected into the Group, or disposed to third parties if the Group decides not to proceed with the Injection) in the preceding year would comply with the Revenue Targets, within a timeframe as stipulated by the Company (as determined by the independent non-executive Directors). For instance, if the Group achieves a revenue of RMB10 billion while the Excluded Baijiu Business achieves a revenue of RMB2 billion for the year ended December 31, 2024, to comply with the 15% Revenue Target for the year of 2024, the Controlling Shareholders will dispose its equity interests in one or more brands (at the Controlling Shareholders’ discretion) which have revenues of more than RMB500 million aggregately for the year ended December 31, 2024, to the Company in 2025, subject to the approvals from the independent non-executive Directors and the independent shareholders (as applicable) pursuant to laws and regulations applicable to the Company (including the Listing Rules) and within a timeframe as stipulated by the Company (as determined by the independent non-executive Directors). In the event that there is any indication that the Revenue Target will be exceeded for a given year during the review of the quarterly updates, the Controlling Shareholders will be required to provide an injection plan to the Group as requested and within a timeframe as stipulated by the independent non-executive Directors.
- In the event that the Group decides to proceed with the Injection, the consideration will be negotiated and agreed at arm’s length between the Group and the Controlling Shareholders at the time of acquisition. If the Controlling Shareholders and the Group fail to agree on the exercise price, an independent well-recognized firm of valuers will be appointed to determine the consideration.
- In the event that our Group decides not to proceed with the Injection, an announcement will also be issued setting out the reasons for not acquiring such interests and the Controlling Shareholders or any of their close associates may proceed to sell such interest to third parties, provided that the price may not be lower than the price which was offered to the Company.

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- The Controlling Shareholders and the Company will use their best endeavors to comply with any other corporate governance measures as reasonably proposed by the Stock Exchange from time to time with reference to applicable requirements under the Listing Rules to ensure the compliance with the Revenue Targets.
- **Mid-range products:** the Excluded Baijiu Business will cease to produce any baijiu products priced at mid-range upon [REDACTED] and may only sell mid-range baijiu products produced before the cessation of such production, subject to the overall Revenue Targets as described above. The Excluded Baijiu Business will completely cease the sale of mid-range baijiu products by the end of April 2024. For the avoidance of doubt, the Controlling Shareholders confirm that the production of the mid-range baijiu products of the Excluded Baijiu Business has been and will be at a level commensurate with its historical production volume and development trends from the date of [REDACTED] and up to the [REDACTED].
- **Premium or above products:** the Excluded Baijiu Business will not engage in the production or sale of any baijiu products priced at premium or above upon [REDACTED].
- **Low-end products:** low-end products are not within the business priority or strategic direction of the development of the Group and the Company will confirm the business focus of the Group in terms of price range in its annual reports after [REDACTED].

Indemnity

Each of the Controlling Shareholders [has undertaken] to indemnify and keep indemnified our Group against any damage, loss or liability suffered by our Company or any other member of our Group arising out of or in connection with any breach of its undertakings and/or obligations under the Deed of Non-competition, including any costs and expenses incurred as a result of such breach provided that such indemnity shall be without prejudice to any other rights and remedies our Company is entitled to in relation to any such breach, including specific performance, and all such other things and remedies are hereby expressly reserved by our Company.

Other undertakings

In order to protect the interests of our Company and our Shareholders (excluding the Controlling Shareholders), our Controlling Shareholders [have undertaken] that in the event that actual or perceived conflict of interests arises, our Controlling Shareholders will abstain from voting for such resolution in approving such transaction(s) both at the board level and at the Shareholders' meeting.

In addition, each of the Controlling Shareholders [has undertaken] to provide and/or procure the Excluded Baijiu Business to provide all available information of the Excluded Baijiu Business necessary for the enforcement of the undertakings in the Deed of Non-competition to our Company and would make an annual declaration on compliance with the Deed of Non-competition in the annual report of our Company and the corporate governance report of our Company pursuant to Appendix 14 to the Listing Rules.

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Amendments

Any adjustment or amendment to the material terms of the Deed of Non-competition will be subject to the approvals of the independent non-executive Directors and independent Shareholders of our Company.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there will be adequate corporate governance measures in place to manage conflicts of interest and competition after [REDACTED]. In particular, we will implement the following measures:

- (a) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) each Director is aware of his/her fiduciary duties as a Director, which require, among other things, that he/she acts for the benefit of our Company and the Shareholders as a whole and does not allow any conflict of interests between his/her duties as a Director and his/her personal interests. A Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and abstain from voting at the board meetings on matters in which such Director or his associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- (c) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors, see “Directors and Senior Management – Directors – Independent Non-executive Directors”;
- (d) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with a Controlling Shareholder or any of his/her/its associates, our Company will comply with the applicable Listing Rules;
- (e) the independent non-executive Directors of the Company will conduct annual review of the compliance of the Controlling Shareholders’ undertaking and any competition issues from the Excluded Baijiu Business. Such review will be included in the annual reports of the Company;
- (f) in the event that the independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group on the one hand and the Controlling Shareholders

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and/or the Directors on the other hand, the Controlling Shareholders and/or the Directors shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either through its annual report or by way of announcements;

- (g) our independent non-executive Directors may engage independent professional adviser(s) in appropriate circumstances at our Company’s costs;
- (h) our audit committee shall be responsible for overseeing the implementation of the above measures; and
- (i) we have appointed Somerley Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and corporate governance.